

**OFFICIAL STATEMENT DATED JULY 24, 2019**

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

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**NEW ISSUE-Book-Entry Only**

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

**\$5,410,000**

**MEMORIAL MUNICIPAL UTILITY DISTRICT**  
*(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)*

**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2019**

The bonds described above (the "Bonds") are obligations solely of Memorial Municipal Utility District (the "District") and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated Date: August 1, 2019**

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

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from August 1, 2019, and is payable each March 1 and September 1, commencing March 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "MUNICIPAL BOND INSURANCE" herein.

**MATURITY SCHEDULE**

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2020	\$ 30,000	3.00 %	1.49 %	585904 JV8	2025	\$ 870,000	3.00 %	1.79 %	585904 KA2
2021	815,000	3.00	1.46	585904 JW6	2026	520,000 (a)	2.00	2.05	585904 KB0
2022	835,000	3.00	1.52	585904 JX4	2027	325,000 (a)	2.00	2.16	585904 KC8
2023	845,000	3.00	1.58	585904 JY2	2028	315,000 (a)	2.00	2.27	585904 KD6
2024	855,000	3.00	1.70	585904 JZ9					

- (a) Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (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 (defined herein) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

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 Jeanne H. McDonald, P.C., Sugar Land, Texas, Bond Counsel, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Special Tax Counsel. See "LEGAL MATTERS." Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about August 28, 2019.

## TABLE OF CONTENTS

MATURITY SCHEDULE.....	1
USE OF INFORMATION IN OFFICIAL STATEMENT.....	3
SALE AND DISTRIBUTION OF THE BONDS.....	4
OFFICIAL STATEMENT SUMMARY.....	5
SELECTED FINANCIAL INFORMATION.....	9
PLAN OF FINANCING.....	10
DEBT SERVICE REQUIREMENTS.....	12
THE BONDS.....	12
BOOK-ENTRY-ONLY SYSTEM.....	17
THE DISTRICT.....	19
MANAGEMENT OF THE DISTRICT.....	20
THE SYSTEM.....	21
FINANCIAL STATEMENT.....	23
ESTIMATED OVERLAPPING DEBT STATEMENT.....	25
TAX DATA.....	26
TAX PROCEDURES.....	28
WATER AND SEWER OPERATIONS.....	33
INVESTMENT CONSIDERATIONS.....	34
VERIFICATION OF MATHEMATICAL CALCULATIONS.....	40
MUNICIPAL BOND RATING.....	40
MUNICIPAL BOND INSURANCE.....	40
LEGAL MATTERS.....	42
TAX MATTERS.....	43
PREPARATION OF OFFICIAL STATEMENT.....	45
CONTINUING DISCLOSURE OF INFORMATION.....	46
MISCELLANEOUS.....	47
DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 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 representations 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, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from, Jeanne H. McDonald, P.C., 2277 Plaza Drive, Suite 280, Sugar Land, Texas, 77479 upon payment of duplication costs.

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

## **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 \$5,573,697.45 (representing the par amount of the Bonds of \$5,410,000.00, plus a net premium on the Bonds of \$208,271.70, less an Underwriter’s discount of \$44,574.25) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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 United States 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 and the Bonds have not 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.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

### HURRICANE HARVEY

#### *General...*

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 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.

#### *Impact of Hurricane Harvey on the District...*

According to the District’s operator and the operator for the Cinco Regional Sewage Treatment Plant, a main trunk line to the Cinco Regional Sewage Treatment Plant collapsed during Hurricane Harvey due to a washout in the adjacent Harris County Flood Control District channel. Although there was no interruption to sewer service during or after the storm, the District asked residents to temporarily reduce the wastewater they were producing while emergency repairs were made.

According to the operator for the Cinco Regional Sewage Treatment Plant, a large manhole on the Cinco Regional Sewage Treatment Plant main trunk line located where the washout occurred also sustained significant damage and had to be replaced. Further, according to the operator for the Cinco Regional Sewage Treatment Plant, the effluent flow meter, composite sampler, RAS pumps, and Scum pump station sustained significant damage from the storm. According to the operator for the Cinco Regional Sewage Treatment Plant, all of the damage to the Cinco Regional Sewage Treatment Plant, the trunk line, and the adjacent manhole has since been repaired.

According to the District’s operator, the District’s water system did not sustain any material damage from Hurricane Harvey and there was no interruption of water service during or after the storm.

Further, according to estimates, approximately 5 homes within the District experienced flooding or other damage as a result of Hurricane Harvey.

If a future weather event significantly damages 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 in 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. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

## THE DISTRICT

<i>Description...</i>	The District was created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), on September 29, 1977, under Article XVI, Section 59 of the Texas Constitution, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the regulatory authority of the Commission. The District is located approximately 24 miles west of the central business district of the City of Houston and is located wholly within the extraterritorial jurisdiction of the City of Houston, Texas. The District presently encompasses approximately 576 acres. The District lies approximately two miles south of Interstate Highway 10.
<i>Status of Development...</i>	The District contains approximately 576 acres of land and provides water, sanitary sewer and drainage service to Memorial Parkway, Sections 10, 14, 15, 17 and 18, Oak Park Trails, Sections 1 through 11, and Westgreen Park, Sections 1 through 4 (in the aggregate 446 acres developed into 1,735 single family residential lots) and two school sites totaling 28 acres. As of June 3, 2019, the District contained approximately 1,723 active single-family connections and 12 vacant single family connections. The 2018 average homestead value in the District is approximately \$225,000. The District also contains a 308-unit apartment project, Oak Park Trails Apartments, and a 130-unit retirement apartment complex, Oak Park Resort, Retirement Resort, located on approximately 20 acres of land. In addition to the development described above, the District contains approximately 34 acres of commercial reserves. Commercial development includes an HEB Grocery Store (which includes a gas station, a car wash, a pharmacy and a bank), a restaurant, two car care centers, a medical needs facility, a Tide dry cleaners, a Taekwando teaching facility, ALDI Grocery Store, Wendy’s, Advanced Auto Parts, Krispy Kreme Doughnuts and a storage facility. Additionally, the District has approximately 48 acres of land in public streets, easements and recreational areas. There is no undeveloped but developable land remaining in the District. See “THE DISTRICT—Status of Development.”
<i>Payment Record...</i>	The District has previously issued twelve series of unlimited tax bonds (including four series of refunding bonds), of which a total of \$6,930,000 principal amount was outstanding as of July 1, 2019 (the “Outstanding Bonds”). There has been no default by the District on the Outstanding Bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”

## THE BONDS

<i>The Issuer...</i>	Memorial Municipal Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris and Fort Bend Counties, Texas. See “THE DISTRICT.”
<i>The Issue...</i>	The \$5,410,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially on September 1 in each of the years 2020 through 2028, both inclusive, in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from August 1, 2019, and is payable March 1, 2020, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”
<i>Book-Entry-Only System...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

<i>Redemption...</i>	Bonds maturing on or after September 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 September 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds, together with available debt service funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$5,415,000 of the Outstanding Bonds in order to achieve net 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.” See “PLAN OF FINANCING—Refunded Bonds.” After the issuance of the Bonds, \$1,515,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”) and the District’s total bonded indebtedness will be \$6,925,000. See “FINANCIAL STATEMENT—Outstanding Bonds.”
<i>Source of Payment...</i>	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, Harris County, the City of Houston or any other political subdivision or agency other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of their ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986.
<i>Bond Counsel...</i>	Jeanne H. McDonald, P.C., Bond Counsel, Sugar Land, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Special Tax Counsel...</i>	Orrick, Herrington & Sutcliffe LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “TAX MATTERS.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton, L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
<i>Paying Agent for the Refunded Bonds...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “PLAN OF FINANCING—Defeasance of Refunded Bonds.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

## **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.....	\$483,060,024	(a)
2019 Preliminary Taxable Assessed Valuation.....	\$513,614,739	(b)
Gross Direct Debt Outstanding (After the Issuance of the Bonds).....	\$ 6,925,000	
Estimated Overlapping Debt .....	<u>21,170,727</u>	
Gross Direct Debt and Estimated Overlapping Debt.....	<u>\$28,095,727</u>	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	1.43%	
2019 Preliminary Taxable Assessed Valuation.....	1.35%	
Ratios of Estimated Overlapping Debt and Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	5.82%	
2019 Preliminary Taxable Assessed Valuation.....	5.47%	
2018 Tax Rate:		
Debt Service.....	\$0.210	
Maintenance and Operations.....	<u>0.205</u>	
Total .....	\$0.415/\$100 A.V.	
Average percentage of total tax collections (2014-2018).....	99.69%	
Average Annual Debt Service Requirement (2020-2028).....	\$769,049	
Maximum Annual Debt Service Requirement (2020).....	\$999,440	
Tax Rates Required to Pay Average Annual Debt Service (2020-2028) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.17/\$100 A.V.	
Based upon 2019 Preliminary Taxable Assessed Valuation .....	\$0.16/\$100 A.V.	
Tax Rates Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.22/\$100 A.V.	
Based upon 2019 Preliminary Taxable Assessed Valuation .....	\$0.21/\$100 A.V.	
Water Connections as of June 3, 2019:		
Single-family residential - Active .....	1,723	
Single-family residential - Inactive .....	12	
Multi-family (442 total apartment units).....	2	
Commercial.....	22	
Other .....	32	
Estimated Population.....	6,915	(c)

- (a) As certified by the Harris County Appraisal District and the Fort Bend Central Appraisal District (the "Appraisal Districts"). See "TAX PROCEDURES."
- (b) Provided by the Appraisal Districts as a preliminary indication of the 2019 taxable value (as of January 1, 2019). Such amount is subject to protest by property owners, review by the Appraisal Districts and downward adjustment prior to certification by the Appraisal Districts in 2019. No tax will be levied on such amount until it is certified in the fall of 2019. See "TAX PROCEDURES."
- (c) Based upon 3.5 persons per occupied single-family home and 2 persons per apartment unit.



## OFFICIAL STATEMENT

### MEMORIAL MUNICIPAL UTILITY DISTRICT

(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)

**\$5,410,000**

### UNLIMITED TAX REFUNDING BONDS SERIES 2019

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Memorial Municipal Utility District (the “District”) of its \$5,410,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended and Chapter 1207, Texas Government Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), and City of Houston Ordinance No. 97-416.

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 Jeanne H. McDonald, P.C., Bond Counsel, 2277 Plaza Drive, Suite 280, Sugar Land, Texas 77479.

## PLAN OF FINANCING

### Purpose

The Bonds are being issued to currently refund and redeem outstanding portions of the District’s original issue of \$2,230,000 Unlimited Tax Refunding Bonds, Series 2009, \$1,570,000 Unlimited Tax Bonds, Series 2011, and \$7,110,000 Unlimited Tax Refunding Bonds, Series 2012, in order to achieve a reduction in the District’s annual debt service expense. The bonds to be refunded are described below under “Refunded Bonds” and are collectively referred to as the “Refunded Bonds.” A total of \$1,515,000 in principal amount of the District’s Outstanding Bonds, excluding the Bonds, will remain outstanding after the issuance of the Bonds (“Remaining Outstanding Bonds”). See “Sources and Uses of Funds” herein and “FINANCIAL STATEMENT—Outstanding Bonds.”

### Refunded Bonds

Proceeds of the Bonds, together with lawfully available debt service funds will be used to currently refund a total of \$5,415,000 principal amount of the Series 2009 Refunding Bonds, Series 2011 Bonds and Series 2012 Refunding Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below:

Maturity Date	Series 2009 Refunding	Series 2011	Series 2012 Refunding
2021	\$ 140,000	\$ -	\$ 650,000
2022	-	100,000 (a)	720,000
2023	-	120,000 (a)	715,000
2024	-	150,000 (b)	705,000
2025	-	150,000 (b)	725,000
2026	-	350,000	190,000
2027	-	350,000	-
2028	-	350,000	-
	<u>\$ 140,000</u>	<u>\$ 1,570,000</u>	<u>\$ 3,705,000</u>
Redemption Date:	September 1, 2019	September 1, 2019	September 1, 2019

(a) Represents term bonds in the total principal amount of \$220,000, scheduled to mature on September 1, 2023.

(b) Represents term bonds in the total principal amount of \$300,000, scheduled to mature on September 1, 2025.

**Sources and Uses of Funds**

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

Sources of Funds:	
Principal Amount of the Bonds .....	\$5,410,000.00
Plus: Net Premium on the Bonds.....	208,271.70
Transfer from Debt Service Fund.....	<u>104,000.00</u>
Total Sources of Funds .....	\$5,722,271.70
Uses of Funds:	
Deposit to Payment Account .....	\$5,524,350.00
Issuance Expenses and Underwriter’s Discount (a) .....	<u>197,921.70</u>
Total Uses of Funds .....	\$5,722,271.70

(a) Includes municipal bond insurance premium.

**Defeasance of Refunded Bonds**

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon, N.A., Dallas, Texas, as paying agent for the Refunded Bonds (the “Paying Agent for the Refunded Bonds”).

The Bond Order provides that from the proceeds of the sale of the Bonds and certain available funds of the District, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the “Payment Account”). By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders 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 so deposited, and the amounts so deposited in the Payment Account 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 (\$5,415,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 1,007,581	\$ 218,700				\$ 788,881
2020	1,024,881	218,700	\$ 30,000	\$ 163,258	\$ 193,258	999,440
2021	1,008,700	1,008,700	815,000	149,800	964,800	964,800
2022	1,006,750	1,006,750	835,000	125,350	960,350	960,350
2023	988,950	988,950	845,000	100,300	945,300	945,300
2024	975,550	975,550	855,000	74,950	929,950	929,950
2025	961,350	961,350	870,000	49,300	919,300	919,300
2026	591,350	591,350	520,000	23,200	543,200	543,200
2027	379,750	379,750	325,000	12,800	337,800	337,800
2028	364,875	364,875	315,000	6,300	321,300	321,300
<b>Total</b>	<b>\$ 8,309,738</b>	<b>\$ 6,714,675</b>	<b>\$ 5,410,000</b>	<b>\$ 705,258</b>	<b>\$ 6,115,258</b>	<b>\$ 7,710,321</b>

Average Annual Debt Service Requirements (2020-2028) .....\$769,049  
 Maximum Annual Debt Service Requirements (2020) .....\$999,440

## THE BONDS

### Description

The Bonds will be dated and accrue interest from August 1, 2019, with interest payable each March 1 and September 1, beginning March 1, 2020 (the “Interest Payment Date”), and will mature on the dates and in the principal 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., 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 February 15 or August 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.

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, an annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the principal and 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, Harris County, Fort Bend 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 will be deposited into the Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

### **No Arbitrage**

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be arbitrage bonds under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond 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.

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2025, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If fewer than all of the Bonds are redeemed at any time, the maturities and amounts of the Bonds to be redeemed will be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

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 less than all the Bonds outstanding 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 which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

#### **Authority for Issuance**

The Bonds are issued by the District pursuant to the terms and provisions 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; and City of Houston Ordinance No. 97-416.

#### **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.

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

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

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

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

#### **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 may issue additional bonds, with the approval of the Commission (hereinafter defined), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. The District currently has \$28,050,000 principal amount of unlimited tax bonds authorized but unissued for the purposes of providing water, sewer and drainage facilities to serve the District. See “Authority for Issuance” herein.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See “THE SYSTEM” and “INVESTMENT CONSIDERATIONS—Future Debt.”

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Commission; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling such an election at this time.

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 Commission; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

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

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

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, Texas (“Houston” or the “City”) the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City without the District’s consent, and the City cannot annex territory within the District unless it annexes the entire District. However, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “Strategic Partnership Agreement,” below.

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

### **Strategic Partnership Agreement**

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with one or more other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

### **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 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. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

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

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

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

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

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

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

## **Defeasance**

The Bond 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, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 affect 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 an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

## THE DISTRICT

### **General**

The District was created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), on September 29, 1977, under Article XVI, Section 59 of the Texas Constitution, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the regulatory authority of the Commission. The District is located approximately 24 miles west of the central business district of the City of Houston and is located wholly within the extraterritorial jurisdiction of the City of Houston, Texas. The District presently encompasses approximately 576 acres. The District lies approximately two miles south of Interstate Highway 10.

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

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 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 Houston for 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 drainage system are subject to the regulatory jurisdiction of additional government agencies. See “THE SYSTEM.”

### **Status of Development**

The District contains 576 acres of land and provides water, sanitary sewer and drainage service to Memorial Parkway, Sections 10, 14, 15, 17 and 18, Oak Park Trails, Sections 1 through 11, and Westgreen Park, Sections 1 through 4 (in the aggregate 446 acres developed into 1,735 single family residential lots) and two school sites totaling 28 acres. As of June 3, 2019, the District contained approximately 1,723 active single-family connections and 12 vacant single family connections. The 2018 average homestead value in the District is approximately \$225,000. The District also contains a 308-unit apartment project, Oak Park Trails Apartments, and a 130-unit retirement apartment complex, Oak Park Resort, Retirement Resort, located on approximately 20 acres of land. In addition to the development described above, the District contains approximately 34 acres of commercial reserves. Commercial development includes an HEB Grocery Store (which includes a gas station, a car wash, a pharmacy and a bank), a restaurant, two car care centers, a medical needs facility, a Tide dry cleaners, a Taekwando teaching facility, ALDI Grocery Store, Wendy’s, Advanced Auto Parts, Krispy Kreme Doughnuts and a storage facility. Additionally, the District has approximately 48 acres of land in public streets, easements and recreational areas. There is no undeveloped, but developable land remaining in the District.

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

Directors are elected by the voters within the District for four- year staggered terms. Directors elections are held in May of even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy ("Tim") C. Miller	President	May 2022
Miguel G. Hull	Vice President/Investment Officer	May 2020
W. F. ("Buddy") Trotter, Jr.	Secretary	May 2022
Crystal Sampson	Assistant Vice President	May 2022
Tom Williams	Investment Officer	May 2020

### **District Consultants**

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District engages Jeanne H. McDonald, P.C. 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.

Special Tax Counsel: Orrick, Herrington & Sutcliffe LLP, serves as Special Tax Counsel to the District. The fees to be paid to Special Tax Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds.

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

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's audited financial statements for the year ended September 30, 2018, were prepared by Roth & Eyring, PLLC. See "APPENDIX A" for a copy of the District's September 30, 2018 audited financial statements.

Operator: The District contracts with Si Environmental, LLC 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 Costello, Inc. (the "Engineer").

Tax Assessor/Collector: Land and improvements within the District are appraised for ad valorem taxation purposes by Harris County Appraisal District and Fort Bend Central Appraisal District. The District contracts with Bob Leared Interests to serve as Tax Assessor/Collector.

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

## THE SYSTEM

### Regulation

According to the Engineer, the District's water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, the City of Houston, Harris County and, in some instances, the Commission. Harris County and the City also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance.

### Water, Sanitary Sewer and Drainage Facilities

*Source of Water Supply:* The District owns and operates two water plants consisting of two water wells with 2,300 gallons per minute (gpm) of collective capacity, two ground storage tanks with a collective capacity of 840,000 gallons, two 20,000 gallon pressure tanks, and booster pumps with a collective capacity of 4,500 gpm. According to the District's Engineer, such facilities are capable of serving approximately 2,250 equivalent single-family connections, which is sufficient to serve the District. In addition, the District has emergency water interconnect agreements with Harris County Municipal Utility District No. 81 ("MUD 81"), Nottingham Country Municipal Utility District and Cornerstones Municipal Utility District.

*Subsidence and Conversion to Surface Water Supply:* The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 1999, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP.

The Authority, among other powers, has the power to (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, and charges as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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

Source of Wastewater Treatment: The District is a participant in the Cinco Regional Wastewater Treatment Plant (the "Regional Plant"). Construction of the Regional Plant, which presently contains 3.0 million gallons-per-day (gpd) capacity, was financed by the participating districts and developers of the participating districts. The participating districts and their present reserved capacities are as follows: The District (940,000 gpd), MUD 81 (560,000 gpd), Cornerstones Municipal Utility District (1,000,000 gpd), and Mason Creek Utility District (500,000 gpd).

According to the District's Engineer, the 940,000 gpd capacity owned by the District is capable of serving 2,685 equivalent single-family connections, which is sufficient to serve the District.

Drainage Facilities: Drainage for the District is provided by underground storm water collection lines and a detention pond. These drainage facilities have been financed by the Outstanding Bonds.

100-Year Flood Plain: "Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency ("FEMA") has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system was designed and constructed to standards in effect at the time of construction.

The District's Engineer states that, according to the most current Flood Insurance Rate Maps published by the Federal Emergency Management Agency, none of the land in the District, except the land within the right-of-way of drainage facilities, is within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS—Hurricane Harvey."

## FINANCIAL STATEMENT

2018 Certified Taxable Assessed Valuation.....	\$483,060,024	(a)
2019 Preliminary Taxable Assessed Valuation.....	\$513,614,739	(b)

Direct Debt:

Outstanding Bonds.....	\$6,930,000	
Less: Refunded Bonds.....	5,415,000	
Plus: The Bonds.....	<u>5,410,000</u>	
Gross Debt Outstanding (After the Issuance of the Bonds).....	<u>\$6,925,000</u>	

Ratios of Gross Direct Debt to:

2018 Certified Taxable Assessed Valuation .....	1.43%	
2019 Preliminary Taxable Assessed Valuation.....	1.35%	

Area of District - 576 acres  
Estimated 2019 Population- 6,915 (c)

- (a) As certified by the Harris County Appraisal District and the Fort Bend Central Appraisal District (the "Appraisal Districts"). See "TAX PROCEDURES."
- (b) Provided by the Appraisal Districts as a preliminary indication of the 2019 taxable value (as of January 1, 2019). Such amount is subject to protest by property owners, review by the Appraisal Districts and downward adjustment prior to certification by the Appraisal Districts in 2019. No tax will be levied on such amount until it is certified in the fall of 2019. See "TAXING PROCEDURES."
- (c) Based upon 3.5 persons per occupied single-family home and 2 persons per apartment unit.

**Cash and Investment Balances** (unaudited as of July 22, 2019)

Operating Fund	Cash and Temporary Investments	\$7,638,409
Construction Fund	Cash and Temporary Investments	\$0
Debt Service Fund	Cash and Temporary Investments	\$1,485,359 (a)

- (a) Includes funds for the District's September 1, 2019 debt service payment in the amount of \$873,791. The District expects to contribute \$104,000 from the Debt Service Fund towards the purpose for which the Bonds are being issued. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

**Investments of the District**

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

## **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.

<u>Series</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds</u>	<u>Less: Refunded Bonds</u>	<u>Remaining Outstanding Bonds</u>
2009 (a)	\$ 2,230,000	\$ 430,000	\$ 140,000	\$ 290,000
2011	1,570,000	1,570,000	1,570,000	-
2012 (a)	<u>7,110,000</u>	<u>4,930,000</u>	<u>3,705,000</u>	<u>1,225,000</u>
Total	\$ 10,910,000	\$ 6,930,000	\$ 5,415,000	\$ 1,515,000
The Bonds				<u>5,410,000</u>
The Bonds and Remaining Outstanding Bonds				\$ 6,925,000

(a) Unlimited tax refunding bonds.

## ESTIMATED OVERLAPPING DEBT STATEMENT

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Harris County .....	\$2,050,758,022	05/31/19	0.09%	\$ 1,845,682
Harris County Flood Control District .....	83,075,000	05/31/19	0.09%	74,768
Harris County Hospital District.....	57,300,000	05/31/19	0.09%	51,570
Harris County Department of Education.....	6,320,000	05/31/19	0.09%	5,688
Port of Houston Authority.....	593,754,397	05/31/19	0.09%	534,379
Katy Independent School District .....	1,665,950,000	05/31/19	1.12%	<u>18,658,640</u>
Total Estimated Overlapping Debt.....				\$21,170,727
The District's Total Direct Debt.....				<u>6,925,000</u> (a)
Total Direct and Estimated Overlapping Debt .....				<u>\$28,095,727</u>
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation of \$483,060,024.....				5.82%
2019 Preliminary Taxable Assessed Valuation of \$513,614,739.....				5.47%

### Overlapping Taxes for 2018

	<u>2018 Tax Rate per \$100 of Taxable Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority).....	\$ 0.635170
Katy Independent School District.....	1.516600
Harris County Emergency Services District No. 48.....	<u>0.100000</u>
Total Overlapping Tax Rate.....	\$ 2.251770
The District.....	<u>0.415000</u>
Total Tax Rate.....	\$ 2.666770



## TAX DATA

### Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of June 30, 2019 (a)	
				Amount	Percent
2014	\$ 375,695,131	\$ 0.510	\$ 1,916,045	\$ 1,913,889	99.89%
2015	414,209,626	0.480	1,988,206	1,985,994	99.89%
2016	443,984,550	0.440	1,953,532	1,952,254	99.93%
2017	477,890,454	0.415	1,983,246	1,978,646	99.77%
2018	483,060,024	0.415	2,004,576	1,983,878	98.97%

(a) Unaudited.

Taxes are due when billed 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.

### Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$ 0.210	\$ 0.210	\$ 0.230	\$ 0.250	\$ 0.270
Maintenance and Operations	0.205	0.205	0.210	0.230	0.240
Total	\$ 0.415	\$ 0.415	\$ 0.440	\$ 0.480	\$ 0.510

### Tax Rate Limitations

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

### Debt Service Tax

The Board covenants in the Bond 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. For the 2018 tax year, the District levied a debt service tax of \$0.21 per \$100 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 a vote of the District's electors. On November 5, 2013 voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.50 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 Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2018 in the amount of \$0.205 per \$100 assessed valuation.

### Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. Property owned by Katy Independent School District located in the District is exempt from taxation by the District. For 2019, the District has adopted a \$20,000 exemption for persons who are 65 or older and/or disabled.

**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 July 1 of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Title 1 of the Texas Tax Code.

**Principal Taxpayers**

The following list of principal taxpayers was provided by the District's tax assessor/collector and represents the principal taxpayers' value as a percentage of the 2018 Certified Taxable Assessed Valuation of \$483,060,024. This represents ownership as of January 1, 2018. A principal taxpayer list related to the 2019 Preliminary Taxable Assessed Valuation, of \$513,614,739, which is subject to review and downward adjustment prior to certification, is currently 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>
Redwood Oaks Park LLC	Land & Improvements	\$ 38,808,849	8.03%
Oak Park Retirement Community	Land, Improvements & Personal Property	21,152,488	4.38%
H. E. Butt Grocery Company	Land, Improvements & Personal Property	11,820,863	2.45%
Sovran Acquisition Limited	Land & Improvements	5,528,974	1.14%
HWA Rang Tigers TaeKwonDo	Land & Improvements	3,750,000	0.78%
Aldi (Texas) LLC	Land & Improvements	2,940,473	0.61%
DSK Holdings LLC	Land & Improvements	2,149,338	0.44%
Beall Katy Retail LLC	Land & Improvements	1,885,038	0.39%
Centerpoint Energy Hou Electric	Personal Property	1,758,210	0.36%
Kiersh Holdings LLC	Land, Improvements & Personal Property	1,434,789	0.30%
Total		\$ 91,229,022	18.89%

**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. A breakdown of the 2019 Preliminary Taxable Assessed Valuation, of \$513,614,739, which is subject to review and downward adjustment prior to certification, is currently not available. Differences in totals may vary slightly from other information herein due to differences in dates of data.

	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>	<u>2016 Certified Taxable Assessed Valuation</u>
Land	\$ 97,199,848	\$ 92,328,243	\$ 92,223,027
Improvements	392,506,511	387,897,523	362,050,927
Personal Property	12,370,963	12,756,428	10,968,046
Exemptions	(19,017,298)	(15,091,740)	(21,257,450)
Total	<u>\$ 483,060,024</u>	<u>\$ 477,890,454</u>	<u>\$ 443,984,550</u>

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation, which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$483,060,024 or the 2019 Preliminary Taxable Assessed Valuation of \$513,614,739, which is subject to review and downward adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service.

Average Annual Debt Service Requirement (2020-2028) .....	\$769,049
\$0.17 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$780,142
\$0.16 Tax Rate on the 2019 Preliminary Taxable Assessed Valuation .....	\$780,694
Maximum Annual Debt Service Requirement (2020).....	\$999,440
\$0.22 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$1,009,595
\$0.21 Tax Rate on the 2019 Preliminary Taxable Assessed Valuation .....	\$1,024,661

No representation or suggestion is made that the 2019 Preliminary Taxable Assessed Valuation provided by the Appraisal Districts for the District will be certified as taxable value by the Appraisal Districts, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See “TAX PROCEDURES.”

**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 Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

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

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

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

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The

District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon 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 homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

***Freeport Goods Exemption:*** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris 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. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

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

## **District and Taxpayer Remedies**

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

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

## **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of

one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

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

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

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. 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 "Special Taxing Units." 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 can be classified herein as "Developing 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.

Special Taxing Units: Special Taxing Units 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 an 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 Special Taxing Unit 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 an 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 Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

*Developing Districts:* Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing 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 an election is called and passes, the total tax rate for Developing 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 Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, 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 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 state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Taxes for 2018." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described in the preceding section 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 amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within 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. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

### **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## 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 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.

### 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 September 30, 2015 through 2018 and from the District's Bookkeeper for the period ended May 31, 2019. Reference is made to such statements and records for further and more complete information.

	Fiscal Year Ended September 30				
	10/1/2018 to 5/31/2019 (a)	2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 978,245	\$ 982,327	\$ 927,628	\$ 950,790	\$ 903,106
Water Service	270,730	391,137	384,850	374,783	376,563
Sewer Service	458,480	699,374	683,494	676,139	682,507
Surface Water Fees, Note 11	274,192	478,694	415,925	349,520	300,277
Penalty and Interest	18,135	26,955	20,216	20,937	21,820
Tap Connection and Inspection Fees	8,143	10,700	-	121,860	38,048
Interest on Prepaid Surface Water					
Capital Contribution, Note 11	-	35,898	36,881	31,459	-
Interest on Deposits and Investments	97,164	97,711	39,596	18,562	15,449
Other Revenues	-	16,652	15,509	7,184	4,866
<b>Total Revenues</b>	<b>\$ 2,105,089</b>	<b>\$ 2,739,448</b>	<b>\$ 2,524,099</b>	<b>\$ 2,551,234</b>	<b>\$ 2,342,636</b>
<b>Expenditures</b>					
Purchased Services, Notes 9 and 10	\$ 201,872	\$ 323,793	\$ 318,437	\$ 133,985	\$ 314,313
Professional Fees	163,882	107,723	107,955	126,943	86,954
Contracted Services	117,443	100,360	94,052	81,485	84,527
Utilities	43,843	75,278	66,627	74,163	81,834
Ground Water Pumpage Fees, Note 11	294,611	560,801	548,839	475,670	415,049
Repairs and Maintenance					
and Other Operating Expenditures	117,242	272,491	226,839	255,578	278,258
Garbage Disposal	227,789	336,416	326,949	292,888	286,785
Administrative Expenditures	73,795	132,174	136,206	166,857	102,080
Capital Outlay / Non-Capital Outlay	201,910	353,753	98,128	181,452	204,936
<b>Total Expenditures</b>	<b>\$ 1,442,387</b>	<b>\$ 2,262,789</b>	<b>\$ 1,924,032</b>	<b>\$ 1,789,021</b>	<b>\$ 1,854,736</b>
<b>Net Revenues</b>	<b>\$ 662,702</b>	<b>\$ 476,659</b>	<b>\$ 600,067</b>	<b>\$ 762,213</b>	<b>\$ 487,900</b>
<b>Other Sources (Uses)</b>					
Transfers In (Out)	\$ -	\$ -	\$ -	\$ 943,043	\$ -
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 8,208,802</b>	<b>\$ 7,732,143</b>	<b>\$ 7,132,076</b>	<b>\$ 5,426,820</b>	<b>\$ 4,938,920</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 8,871,504</b>	<b>\$ 8,208,802</b>	<b>\$ 7,732,143</b>	<b>\$ 7,132,076</b>	<b>\$ 5,426,820</b>

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



## INVESTMENT CONSIDERATIONS

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect 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 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."

### **Hurricane Harvey**

The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent 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 and the operator for the Cinco Regional Sewage Treatment Plant, a main trunk line to the Cinco Regional Sewage Treatment Plant collapsed during Hurricane Harvey due to a washout in the adjacent Harris County Flood Control District channel. Although there was no interruption to sewer service during or after the storm, the District asked residents to temporarily reduce the wastewater they were producing while emergency repairs were made.

According to the operator for the Cinco Regional Sewage Treatment Plant, a large manhole on the Cinco Regional Sewage Treatment Plant main trunk line located where the washout occurred also sustained significant damage and had to be replaced. Further, according to the operator for the Cinco Regional Sewage Treatment Plant, the effluent flow meter, composite sampler, RAS pumps, and Scum pump station sustained significant damage from the storm. According to the operator for the Cinco Regional Sewage Treatment Plant, all of the damage to the Cinco Regional Sewage Treatment Plant, the trunk line, and the adjacent manhole has since been repaired.

According to the District's operator, the District's water system did not sustain any material damage from Hurricane Harvey and there was no interruption of water service during or after the storm.

Further, according to estimates, approximately 5 homes within the District experienced flooding or other damage as a result of Hurricane Harvey.

If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

### **Specific Flood Type Risks**

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

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

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

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, and commercial, retail, and multi-family properties. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential and multi-family dwellings and commercial projects of this type can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center in which such properties are located. Declines in the price of oil could adversely affect the demand for housing, thereby adversely affecting values of existing homes.

### **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 is \$483,060,024 and the 2019 Preliminary Taxable Assessed Valuation is \$513,614,739 (see “FINANCIAL STATEMENT”). After issuance of the Bonds, the maximum annual debt service requirement will be \$999,440 (2020) and the average annual debt service requirements will be \$769,049 (2020-2028) (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 \$0.22 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$999,440 and a tax rate of \$0.17 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$769,049. The 2019 Preliminary Taxable Assessed Valuation reduces the above calculations to \$0.21 per \$100 assessed valuation and \$0.16 per \$100 assessed valuation, 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 Preliminary Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

### **Tax Collections Limitations and Foreclosure Remedies**

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “ESTIMATED OVERLAPPING DEBT—Overlapping Taxes for 2018”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the 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 (1) is authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

The District may not be placed into bankruptcy involuntarily.

## **Future Debt**

At a bond election on November 5, 2013, the District’s voters authorized \$28,050,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing improvements to District water, sanitary sewer and drainage facilities and \$28,050,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. After issuance of the Bonds, the District will have \$28,050,000 of unlimited tax bonds authorized but unissued for refunding outstanding bonds and \$28,050,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing improvements to District water, sanitary sewer and drainage facilities. The District reserves in the Bond Order the right to issue any authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, and for refunding purposes and the District may issue additional bonds which may be voted hereafter. See “THE BONDS—Issuance of Additional Debt.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

## **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, the 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, the 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 the 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, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

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

### **Marketability of the Bonds**

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

### **Changes in Tax Legislation**

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

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

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

### **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 bond 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.

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

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

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

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of the ratings may be obtained from S&P.

There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P if in 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 June 27, 2019, 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 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 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.”

## **LEGAL MATTERS**

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “PLAN OF FINANCING—Defeasance of Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” “MANAGEMENT OF THE DISTRICT—Bond Counsel/Attorney,” “TAX PROCEDURES,” “LEGAL MATTERS,” (to the extent it relates to the opinion of Bond Counsel) and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Special Tax Counsel has reviewed the information appearing in the OFFICIAL STATEMENT under “LEGAL MATTERS” (to the extent it relates to the opinion of Special Tax Counsel) and “TAX MATTERS.” Bond Counsel will not be responsible in any manner for the matters addressed in the opinion of Special Tax Counsel, and such firm is of the opinion that such information fairly summarizes the law referred to therein likewise, Special Tax Counsel will not be responsible in any manner for the matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings related to the Bonds.

The legal fees paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the 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 any Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## **TAX MATTERS**

### **Tax Exemption**

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

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

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

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

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

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

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

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

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

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

## PREPARATION OF OFFICIAL STATEMENT

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

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

### **Financial Advisor**

Masterson Advisors LLC is 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. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Consultants**

In approving this Official Statement the District has relied upon the following consultants.

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

*Appraisal Districts:* The information contained in this Official Statement relating to the Assessed Valuations has been provided by the Harris County Appraisal District and Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entities as experts in assessing the values of property in Harris and Fort Bend Counties, including the District.

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

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

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating 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 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 the 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. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to payment of the Bonds; accordingly, in the Bond Resolution, the District has made the following agreement for the benefit of the registered holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

### **Annual Reports**

The District will provide certain financial information and operating data which is customarily prepared by the District and publicly available annually 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 "APPENDIX A (District's Audited Financial Statements)". The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019. Any information concerning the District so provided 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 of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to EMMA within such six month period, and audited financial statements when the audit report becomes available.

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

### **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 events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence 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, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District 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 to 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 Registered Owners 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 all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

### **MISCELLANEOUS**

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any 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.

/s/ Timothy (“Tim”) C. Miller  
President, Board of Directors

ATTEST:

/s/ W. F. (“Buddy”) Trotter, Jr.  
Secretary, Board of Directors

**APPENDIX A**

**District Audited Financial Statements for the fiscal year ended September 30, 2018**

**Exhibit B**

MEMORIAL MUNICIPAL UTILITY DISTRICT  
HARRIS AND FORT BEND COUNTIES, TEXAS  
ANNUAL AUDIT REPORT  
SEPTEMBER 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	11-21
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	22
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	23
SCHEDULE OF SERVICES AND RATES	24-25
EXPENDITURES FOR THE YEAR ENDED SEPTEMBER 30, 2018	26-27
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS, ALL GOVERNMENTAL FUND TYPES	28
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS	29
TAXES LEVIED AND RECEIVABLE	30-31
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	32-33
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	34
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	35
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	36
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	37-38

# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

December 17, 2018

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Memorial Municipal  
Utility District  
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Memorial Municipal Utility District, as of and for the year ended September 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 Memorial Municipal Utility District as of September 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 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 22 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 23 to 38 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 Memorial Municipal 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 September 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 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. 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	\$ 9,067,852	\$ 8,651,948	\$ 415,904
Capital assets	7,147,927	7,202,408	(54,481)
Total assets	<u>16,215,779</u>	<u>15,854,356</u>	<u>361,423</u>
Long-term liabilities	6,624,170	7,358,766	(734,596)
Other liabilities	910,075	935,198	(25,123)
Total liabilities	<u>7,534,245</u>	<u>8,293,964</u>	<u>(759,719)</u>
Net position:			
Invested in capital assets, net of related debt	(212,068)	(889,088)	677,020
Restricted	1,610,471	1,670,523	(60,052)
Unrestricted	7,283,131	6,778,957	504,174
Total net position	<u>\$ 8,681,534</u>	<u>\$ 7,560,392</u>	<u>\$ 1,121,142</u>

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 2,003,826	\$ 1,958,277	\$ 45,549
Charges for services	1,659,410	1,556,875	102,535
Other revenues	108,094	46,508	61,586
Total revenues	<u>3,771,330</u>	<u>3,561,660</u>	<u>209,670</u>
Expenses:			
Service operations	2,365,975	2,271,883	94,092
Debt service	284,213	307,025	(22,812)
Total expenses	<u>2,650,188</u>	<u>2,578,908</u>	<u>71,280</u>
Change in net position	1,121,142	982,752	138,390
Net position, beginning of year	<u>7,560,392</u>	<u>6,577,640</u>	<u>982,752</u>
Net position, end of year	<u>\$ 8,681,534</u>	<u>\$ 7,560,392</u>	<u>\$ 1,121,142</u>

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

The District's combined fund balances as of the end of the fiscal year ended September 30, 2018, were \$8,868,466, an increase of \$440,053 from the prior year.

The General Fund balance increased by \$476,659, in accordance with the District's financial plan.

The Debt Service Fund balance decreased by \$36,606, in accordance with the District's financial plan.

*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 22 of this report. The budgetary fund balance as of September 30, 2018, was expected to be \$5,858,313 and the actual end of year fund balance was \$8,208,802.

**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	\$ 2,280	\$ 2,280	\$ 0
Construction in progress	335,377	88,239	247,138
Water facilities	2,826,636	2,913,402	(86,766)
Sewer facilities	3,983,634	4,198,487	(214,853)
Totals	<u>\$ 7,147,927</u>	<u>\$ 7,202,408</u>	<u>\$ (54,481)</u>

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

<b>Additions:</b>		
Engineering for pedestrian bridge and landscaping	\$ 190,087	
Water well rehabilitation	101,215	
Improvements to regional wastewater facility	<u>57,051</u>	
Total additions to capital assets	348,353	
<b>Decreases:</b>		
Depreciation	<u>(402,834)</u>	
Net change to capital assets	<u>\$ (54,481)</u>	

*Debt*

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

Bonded debt payable, beginning of year	\$ 7,660,000
Bonds paid	<u>(730,000)</u>
Bonded debt payable, end of year	<u>\$ 6,930,000</u>

At September 30, 2018, the District had \$28,050,000 unlimited tax bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District’s bonds have an underlying rating of A by Standard & Poor’s. The Series 2009, 2011 and 2012 bonds are insured by Assured Guaranty Municipal Corp. The insured rating of these bonds is AA by Standard & Poor’s. There was no change in the bond ratings during the fiscal year ended September 30, 2018.

At September 30, 2018, there were no developer construction commitments and liabilities.

## RELEVANT FACTORS AND WATER SUPPLY ISSUES

### *Property Tax Base*

The District's tax base increased approximately \$34,240,000 for the 2017 tax year (approximately 8%), primarily due to the increased valuation on existing property.

### *Relationship to the City of Houston*

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with one or more other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

### *Water Supply Issues*

The District is within the Harris-Galveston Subsidence District (the "Subsidence District") Regulatory Area No. 3. The Subsidence District regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules. The Subsidence District has designated January, 2010, as the date required for the District to restrict the withdrawal of ground water and convert 30% of its total water use to surface water; January, 2025, as the date required for the District to restrict the withdrawal of ground water and convert 60% of its total water use to surface water and January, 2035, as the date required for the District to restrict the withdrawal of ground water and convert 80% of its total water use to surface water. If the District does not meet the requirements of the Subsidence District, the District may be required to pay the disincentive fees adopted by the Subsidence District.

In May, 2001, the Texas Legislature created the West Harris County Regional Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the Subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the subsidence District's requirements. In accordance with the GRP, the Authority has negotiated a water supply contract with the City of Houston and has issued revenue bonds to finance the surface water supply system. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. At September 30, 2018, the Authority's ground water pumpage fee was equal to \$2.70 per 1,000 gallons pumped, and is expected to increase in the future. At September 30, 2018, the Authority's surface water usage fee was equal to \$3.10 per 1,000 gallons purchased, and is expected to increase in the future.



The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water and sewer rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water and sewer rates. This disincentive fee would be in addition to the Authority's fee.

As further described in Note 9 of the notes to the financial statements, the District made a capital advance in the amount of \$1,012,935 to the Authority for the District's share of construction costs of the regional system. Under the terms of the contract, the District will receive principal and interest credits in 300 monthly installments. These credits are to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason. The credits are based upon the amortization of the District's advance.

MEMORIAL MUNICIPAL UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2018

	<u>General</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	\$ 832,653	\$ 118,884	\$	\$ 951,537	\$	\$ 951,537
Certificates of deposit, Note 7	2,318,289	156,306		2,474,595		2,474,595
Temporary investments, at cost, Note 7	4,039,897	387,780		4,427,677		4,427,677
Receivables:						
Property taxes	14,226	17,174		31,400		31,400
Accrued penalty and interest on property taxes				0	16,034	16,034
Service accounts	87,335			87,335		87,335
Accrued interest	18,410	1,426		19,836		19,836
Other	3,758			3,758		3,758
Due from other fund		3,256		3,256	(3,256)	0
Due from joint venture	55,620			55,620		55,620
Deposits at joint venture, Note 9	30,000			30,000		30,000
Prepaid surface water capital contribution, Note 11	939,897			939,897		939,897
Groundwater bank certificates, at cost, Note 12	30,163			30,163		30,163
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	337,657	337,657
Depreciable capital assets				0	6,810,270	6,810,270
<b>Total assets</b>	<b><u>\$8,370,248</u></b>	<b><u>\$ 684,826</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 9,055,074</u></b>	<b><u>7,160,705</u></b>	<b><u>16,215,779</u></b>
<b>LIABILITIES</b>						
Accounts payable	\$ 143,964	\$ 7,988	\$	\$ 151,952		151,952
Accrued interest payable				0	22,298	22,298
Due to other fund	3,256			3,256	(3,256)	0
Long-term liabilities, Note 5:						
Due within one year				0	735,825	735,825
Due in more than one year				0	6,624,170	6,624,170
<b>Total liabilities</b>	<b><u>147,220</u></b>	<b><u>7,988</u></b>	<b><u>0</u></b>	<b><u>155,208</u></b>	<b><u>7,379,037</u></b>	<b><u>7,534,245</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	<u>14,226</u>	<u>17,174</u>	<u>0</u>	<u>31,400</u>	<u>(31,400)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Nonspendable:						
Reserve at joint venture, Note 9	30,000			30,000	(30,000)	0
Prepaid surface water capital contribution, Note 11	939,897			939,897	(939,897)	0
Groundwater bank certificates, Note 12	30,163			30,163	(30,163)	0
Assigned to debt service		659,664		659,664	(659,664)	0
Unassigned	<u>7,208,742</u>			<u>7,208,742</u>	<u>(7,208,742)</u>	<u>0</u>
<b>Total fund balances</b>	<b><u>8,208,802</u></b>	<b><u>659,664</u></b>	<b><u>0</u></b>	<b><u>8,868,466</u></b>	<b><u>(8,868,466)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$8,370,248</u></b>	<b><u>\$ 684,826</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 9,055,074</u></b>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(212,068)	(212,068)
Restricted for debt service					670,574	670,574
Restricted for receivable from regional authority					939,897	939,897
Unrestricted					<u>7,283,131</u>	<u>7,283,131</u>
<b>Total net position</b>					<b><u>\$ 8,681,534</u></b>	<b><u>\$ 8,681,534</u></b>

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

MEMORIAL MUNICIPAL UTILITY DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 982,327	\$ 1,006,473	\$	\$ 1,988,800	\$ 1,304	\$ 1,990,104
Water service	391,137			391,137		391,137
Sewer service	699,374			699,374		699,374
Surface water fees, Note 11	478,694			478,694		478,694
Penalty and interest	26,955	12,424		39,379	1,298	40,677
Tap connection and inspection fees	10,700			10,700		10,700
Interest on prepaid surface water capital contribution, Note 11	35,898			35,898		35,898
Interest on deposits and investments	97,711	10,383		108,094		108,094
Other revenues	16,652			16,652		16,652
<b>Total revenues</b>	<b>2,739,448</b>	<b>1,029,280</b>	<b>0</b>	<b>3,768,728</b>	<b>2,602</b>	<b>3,771,330</b>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Purchased services, Notes 9 and 10	323,793			323,793		323,793
Professional fees	107,723	3,931		111,654		111,654
Contracted services	100,360	40,219		140,579		140,579
Utilities	75,278			75,278		75,278
Ground water pumpage fees, Note 11	560,801			560,801		560,801
Repairs and maintenance and other operating expenditures	272,491			272,491		272,491
Garbage disposal	336,416			336,416		336,416
Administrative expenditures	132,174	4,555		136,729		136,729
Depreciation				0	402,834	402,834
Capital outlay / non-capital outlay	353,753			353,753	(348,353)	5,400
Debt service:						
Principal retirement		730,000		730,000	(730,000)	0
Interest and fees		287,181		287,181	(2,968)	284,213
<b>Total expenditures / expenses</b>	<b>2,262,789</b>	<b>1,065,886</b>	<b>0</b>	<b>3,328,675</b>	<b>(678,487)</b>	<b>2,650,188</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>476,659</b>	<b>(36,606)</b>	<b>0</b>	<b>440,053</b>	<b>681,089</b>	<b>1,121,142</b>
<b>Net change in fund balances / net position</b>	<b>476,659</b>	<b>(36,606)</b>	<b>0</b>	<b>440,053</b>	<b>681,089</b>	<b>1,121,142</b>
<b>Beginning of year</b>	<b>7,732,143</b>	<b>696,270</b>	<b>0</b>	<b>8,428,413</b>	<b>(868,021)</b>	<b>7,560,392</b>
<b>End of year</b>	<b>\$ 8,208,802</b>	<b>\$ 659,664</b>	<b>\$ 0</b>	<b>\$ 8,868,466</b>	<b>\$ (186,932)</b>	<b>\$ 8,681,534</b>

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

MEMORIAL MUNICIPAL UTILITY DISTRICTNOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2018

## NOTE 1: REPORTING ENTITY

Memorial Municipal Utility District (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective September 29, 1977, 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 October 19, 1977, and the first bonds were sold on September 29, 1980. 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 security services, park and recreational facilities, and garbage disposal and collection services. 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.

The District is a primary governmental entity. 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 a participant in the Cinco Regional Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Board of Directors of Harris County Municipal Utility District No. 81. Based on the criteria established above, the Plant's financial activity has not been included in the District's financial statements. Transactions with and summary financial statements of 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 is 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 either not spendable, restricted, committed, assigned or unassigned. Nonspendable 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.

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.

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

Plant and equipment	10-45 years
Underground lines	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Regional Water Authority Credits

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the agreement with the regional water authority are recorded as either a repayment of the principal amount or interest earned at the interest rate specified in the agreement. The principal is amortized based upon the life of the credits and the interest rate specified in the agreement.

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		\$ 8,868,466
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		7,147,927
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	\$ (6,930,000)	
Deferred charge on refunding (to be amortized as interest expense)	55,799	
Net issuance premium (to be amortized as interest expense)	<u>(485,794)</u>	(7,359,995)
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	16,034	
Uncollected property taxes	<u>31,400</u>	47,434
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(22,298)</u>
Net position, end of year		<u>\$ 8,681,534</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		\$ 440,053
<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	\$ 348,353	
Depreciation	<u>(402,834)</u>	(54,481)
<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>		
Principal reduction		730,000
<p>The funds report the effect of bond 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	(14,467)	
Issuance premium	<u>15,968</u>	1,501
<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	1,298	
Uncollected property taxes	<u>1,304</u>	2,602
<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>		
Accrued interest		<u>1,467</u>
Change in net position		<u>\$ 1,121,142</u>

NOTE 4: CAPITAL ASSETS

At September 30, 2018, "Invested in capital assets, net of related debt" was \$(212,068). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. 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 September 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	\$ 2,280			\$ 2,280
Construction in progress	<u>88,239</u>	<u>247,138</u>		<u>335,377</u>
Total capital assets not being depreciated	<u>90,519</u>	<u>247,138</u>	<u>0</u>	<u>337,657</u>
Depreciable capital assets:				
Water system	5,392,748	101,215		5,493,963
Sewer system	<u>7,418,503</u>			<u>7,418,503</u>
Total depreciable capital assets	<u>12,811,251</u>	<u>101,215</u>	<u>0</u>	<u>12,912,466</u>
Less accumulated depreciation for:				
Water system	(2,479,346)	(187,981)		(2,667,327)
Sewer system	<u>(3,220,016)</u>	<u>(214,853)</u>		<u>(3,434,869)</u>
Total accumulated depreciation	<u>(5,699,362)</u>	<u>(402,834)</u>	<u>0</u>	<u>(6,102,196)</u>
Total depreciable capital assets, net	<u>7,111,889</u>	<u>(301,619)</u>	<u>0</u>	<u>6,810,270</u>
Total capital assets, net	<u>\$ 7,202,408</u>	<u>\$ (54,481)</u>	<u>\$ 0</u>	<u>\$ 7,147,927</u>
Changes to capital assets:				
Capital outlay		\$ 348,353	\$	
Less depreciation expense for the fiscal year		<u>(402,834)</u>		
Net increases / decreases to capital assets		<u>\$ (54,481)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 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	\$ 7,660,000	\$	\$ 730,000	\$ 6,930,000	\$ 740,000
Less deferred refunding charges	(70,266)		(14,467)	(55,799)	(12,006)
Add issuance premium net of (discount)	<u>501,762</u>		<u>15,968</u>	<u>485,794</u>	<u>7,831</u>
Total bonds payable	<u>8,091,496</u>	<u>0</u>	<u>731,501</u>	<u>7,359,995</u>	<u>735,825</u>
Total long-term liabilities	<u>\$ 8,091,496</u>	<u>\$ 0</u>	<u>\$ 731,501</u>	<u>\$ 7,359,995</u>	<u>\$ 735,825</u>

Developer Construction Commitments and Liabilities

At September 30, 2018, there were no developer construction commitments or liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 740,000	\$ 267,581	\$ 1,007,581
2020	775,000	249,881	1,024,881
2021	790,000	218,700	1,008,700
2022	820,000	186,750	1,006,750
2023	835,000	153,950	988,950
2024 - 2028	<u>2,970,000</u>	<u>302,875</u>	<u>3,272,875</u>
	<u>\$ 6,930,000</u>	<u>\$ 1,379,737</u>	<u>\$ 8,309,737</u>

Bonds voted	\$ 47,390,000
Bonds approved for sale and sold	19,340,000
Bonds voted and not issued	28,050,000
Refunding bonds voted	28,050,000
Refunding bonds approved for sale and sold	0
Refunding bonds voted and not issued	28,050,000

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 bond issues payable at September 30, 2018, were as follows:

	<u>Series 2009</u>	<u>Series 2011</u>	<u>Series 2012</u>
Amounts outstanding, September 30, 2018	\$430,000	\$1,570,000	\$4,930,000
Interest rates	4.00% to 4.25%	4.00% to 4.25%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2021	September 1, 2022/2028	September 1, 2019/2026
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	September 1, 2018*	September 1, 2019*	September 1, 2019*

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

**NOTE 6: PROPERTY TAXES**

The Harris County Appraisal District and the Fort Bend Central Appraisal District have the responsibility for appraising property for all taxing units within the respective counties 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 are not delinquent until after the following January 31. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Bond Resolutions and 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.

At an election held November 5, 2013, the voters within the District authorized a maintenance tax not to exceed \$1.50 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 October 23, 2017, the District levied the following ad valorem taxes for the 2017 tax year on the adjusted taxable valuation of \$478,194,230:

	Rate	Amount
Debt service	\$ 0.2100	\$ 1,004,243
Maintenance	0.2050	980,333
	\$ 0.4150	\$ 1,984,576

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	\$ 1,984,576
Appraisal district adjustments to prior year taxes	5,528
Statement of Activities property tax revenues	\$ 1,990,104

**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 \$3,426,132 and the bank balance was \$3,323,252. Of the bank balance, \$2,847,825 was covered by federal insurance and \$475,427 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 \$4,427,677.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Debt Service Fund

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

Cash	\$ 118,884
Certificates of deposit	156,306
Temporary investments	<u>387,780</u>
	<u>\$ 662,970</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 September 30, 2018, the District had physical damage and boiler and machinery coverage of \$21,000,000 (\$18,000,000 of which is for the Cinco Regional Sewage Treatment Plant as the District is the titled owner of the Plant as described in Note 9), comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution liability coverage of \$1,000,000, umbrella liability coverage of \$1,000,000, business travel coverage of \$250,000 each director, director and officers liability coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: REGIONAL SEWAGE TREATMENT PLANT

The District is a participant in the Cinco Regional Sewage Treatment Plant (the "Plant"). The District is the titled owner of the Plant. On December 11, 1997, the participating districts entered into a Restated Cinco Regional Sewage Treatment Plant Agreement which superseded all prior agreements related to the Plant. The term of the Agreement is forty years. Harris County Municipal Utility District No. 81 is the Operating District of the Plant and oversight of the Plant is exercised by the Board of Directors of Harris County Municipal Utility District No. 81. However, the participating districts in the Plant are entitled to representation on the Cinco Plant Operating Committee which reviews the operation of the Plant, and, in certain circumstances, has the power to compel the Operating District to take certain actions. Capacity in the Plant is allocated as follows: Memorial Municipal Utility District -- 31.33%; Cornerstones Municipal Utility District -- 33.33%; Mason Creek Utility District -- 16.67%; and Harris County Municipal Utility District No. 81 -- 18.67%. Construction costs of the Plant were funded by the contribution of funds from each participating district. The Plant issues no debt.

Each participant records its share of the capital assets of the Plant in its financial statements.

Operating costs of the Plant are shared based on capacity owned and number of connections served. During the current fiscal year the District incurred operating costs of \$301,188 and capital outlay costs of \$190,087. The District has also advanced \$30,000 to the Plant as its pro rata share of an operating reserve and \$16,198 for future capital improvements. At September 30, 2018, \$39,422 was receivable from the Plant for the Plant's pro rata share of insurance expense paid by the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following summary financial data of the Plant's General Fund is presented for the Plant's fiscal year ended December 31, 2017:

	Plant Total	District's Share
Total assets	\$ 660,544	
Total liabilities	(540,544)	
Total fund equity	\$ 120,000	\$ 30,000
Total revenues	\$ 980,648	\$ 309,157
Total expenditures	(980,648)	(309,157)
Excess revenues (expenditures)	0	0
Fund equity, beginning of year	120,000	30,000
Fund equity (operating reserve), end of year	\$ 120,000	\$ 30,000

NOTE 10: SERVICE CONTRACTS

Effective September 1, 2000 (amended four times thereafter), the District and Cornerstones Municipal Utility District ("Cornerstones") entered into a 30 year contract for the supply of water from Cornerstones to serve a portion of land within the boundaries of the District. The contract provides that the District will pay an annual debt service component payment to Cornerstones. The debt service component for the fiscal year ended September 30, 2018, was \$1,930. The contract also provides that the District will pay monthly fees to Cornerstones for the water used by the customers within the District. Costs under this provision were \$20,675 during the fiscal year ended September 30, 2018.

Effective August 1, 2014, the District and Harris County Municipal Utility District No. 81 entered into a 40 year contract for the provision of water supply, wastewater services and garbage collection for customer connections within the boundaries of the districts which are physically connected to the other district's water supply and/or wastewater systems. Under the terms of the contract, customer connections within a district ("Billing District") which are connected to the other district ("Servicing District") shall be billed by the Billing District and the Billing District shall pay the Servicing District for services according to the charges as specified in the contract. During the fiscal year ended September 30, 2018, the District accrued net charges of \$11,150 under the terms of this contract.

NOTE 11: REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority (the "Authority") was created by House Bill 1842, Acts of the 77th Legislature, Regular Session 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of September 30, 2018, the Authority had established a well pumpage fee of \$2.70 per 1,000 gallons of water pumped from each regulated well. The District's well pumpage fees payable to the Authority for the fiscal year ended September 30, 2018, were \$560,801. The District billed its customers \$478,694 during the fiscal year to pay for the well pumpage fees.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On December 1, 2015, the District made a capital advance in the amount of \$1,012,935 to the Authority for the District’s share of construction costs of the regional system. Under the terms of the contract, the District will receive principal and interest credits in 300 monthly installments beginning December 2015. These credits are to be applied: first, against the District’s pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason. The credits are based upon the amortization of the District’s advance at a rate of 3.761%.

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the agreement with the Authority are recorded as either a repayment of the principal amount or interest earned at the interest rate specified in the agreement. The principal is amortized based upon the life of the credits and the interest rate specified in the agreement.

During the fiscal year ended September 30, 2018, the District received credits of \$62,568 under the provisions of the contract. Of this amount, \$26,670 was a repayment of principal and \$35,898 was interest.

A summary of the amortization of the remaining scheduled credits for the prepaid capital contributions is as follows:

Credits Due During Fiscal Years Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 27,691	\$ 34,877	\$ 62,568
2020	28,750	33,818	62,568
2021	29,850	32,718	62,568
2022	30,993	31,575	62,568
2023	32,179	30,389	62,568
2024-2028	180,334	132,506	312,840
2029-2033	217,583	95,257	312,840
2034-2038	262,525	50,315	312,840
2039-2041	129,992	5,572	135,564
	<u>\$ 939,897</u>	<u>\$ 447,027</u>	<u>\$ 1,386,924</u>

NOTE 12: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (“HGSD”). These certificates expire in 40 years (certificates issued after August 1, 2001 expire in 20 years) and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of a disincentive fee assessed by the HGSD for ground water pumpage in excess of the District’s permit as amended. At September 30, 2018, the District had in its possession certificates totaling 70,020 thousand gallons of water (16,968 40-year certificates and 59,052 20-year certificates). The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$30,163 at September 30, 2018.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 958,000	\$ 958,000	\$ 982,327	\$ 24,327
Water service	450,000	450,000	391,137	(58,863)
Sewer service	680,000	680,000	699,374	19,374
Surface water fees	430,000	430,000	478,694	48,694
Penalty	25,000	25,000	26,955	1,955
Tap connection and sewer inspection fees	0	0	10,700	10,700
Interest on prepaid surface water capital contribution	0	0	35,898	(44,939)
Interest on deposits and investments	35,000	35,000	97,711	62,711
Other revenues	8,500	8,500	16,652	8,152
<b>TOTAL REVENUES</b>	<b>2,586,500</b>	<b>2,586,500</b>	<b>2,739,448</b>	<b>152,948</b>
<b>EXPENDITURES</b>				
Service operations:				
Purchased services	316,500	316,500	323,793	7,293
Professional fees	153,900	153,900	107,723	(46,177)
Contracted services	97,500	97,500	100,360	2,860
Utilities	87,000	87,000	75,278	(11,722)
Ground water pumpage fees	535,000	535,000	560,801	25,801
Repairs, maintenance and other operating expenditures	414,000	414,000	272,491	(141,509)
Garbage disposal	336,000	336,000	336,416	416
Administrative expenditures	205,430	205,430	132,174	(73,256)
Capital outlay	2,315,000	2,315,000	353,753	(1,961,247)
<b>TOTAL EXPENDITURES</b>	<b>4,460,330</b>	<b>4,460,330</b>	<b>2,262,789</b>	<b>(2,197,541)</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>(1,873,830)</b>	<b>(1,873,830)</b>	<b>476,659</b>	<b>2,350,489</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>7,732,143</b>	<b>7,732,143</b>	<b>7,732,143</b>	<b>0</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 5,858,313</b>	<b>\$ 5,858,313</b>	<b>\$ 8,208,802</b>	<b>\$ 2,350,489</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.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
SEPTEMBER 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



MEMORIAL MUNICIPAL UTILITY DISTRICT

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 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 type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security            |
| <input checked="" type="checkbox"/> Solid Waste/Garbage  | <input type="checkbox"/> Flood Control        | <input 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):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$12.50	6,000	N	\$1.00 1.25 1.50	6,001 to 10,000 10,001 to 15,000 Over 15,000
WASTEWATER:	\$29.25		Y		

SURCHARGE: \$2.25 per 1,000 gallons of water used. – WHCRWA surface water fees.

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$16.50 Wastewater: \$29.25 Surcharge: \$22.50

MEMORIAL MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF SERVICES AND RATES (Continued)  
SEPTEMBER 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"	1,744	1,726	1.0	1,726
1"	12	12	2.5	30
1-1/2"	10	10	5.0	50
2"	21	21	8.0	168
3"	1	1	15.0	15
4"	1	1	25.0	25
6"	1	1	50.0	50
8"	1	1	80.0	80
10"	0	0	115.0	0
Total Water	<u>1,791</u>	<u>1,773</u>		<u>2,144</u>
Total Wastewater	<u>1,759</u>	<u>1,741</u>	1.0	<u>1,741</u>

\*Single family equivalents

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

Gallons pumped into system (unaudited): 237,381  
 Gallons billed to customers (unaudited): 236,318

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 100%

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: \_\_\_\_\_

MEMORIAL MUNICIPAL UTILITY DISTRICT

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CURRENT</b>				
Purchased services:				
Sewer	\$ 301,188	\$	\$	\$ 301,188
Water debt service component	1,930			1,930
Water usage	20,675			20,675
	<u>323,793</u>	<u>0</u>	<u>0</u>	<u>323,793</u>
Professional fees:				
Auditing	10,950			10,950
Legal	62,451	3,931		66,382
Engineering	34,322			34,322
	<u>107,723</u>	<u>3,931</u>	<u>0</u>	<u>111,654</u>
Contracted services:				
Bookkeeping	22,379			22,379
Operation and billing	77,981			77,981
Tax assessor-collector		25,489		25,489
Central appraisal district		14,730		14,730
	<u>100,360</u>	<u>40,219</u>	<u>0</u>	<u>140,579</u>
Utilities	<u>75,278</u>	<u>0</u>	<u>0</u>	<u>75,278</u>
Groundwater pumpage fees	<u>560,801</u>	<u>0</u>	<u>0</u>	<u>560,801</u>
Repairs, maintenance and other operating expenditures:				
Repairs and maintenance	226,976			226,976
Chemicals	15,650			15,650
Laboratory costs	3,522			3,522
Sewer inspection costs	9,759			9,759
Net payments to HCM81	11,150			11,150
TCEQ assessment	5,434			5,434
	<u>272,491</u>	<u>0</u>	<u>0</u>	<u>272,491</u>
Garbage disposal	<u>336,416</u>	<u>0</u>	<u>0</u>	<u>336,416</u>
Administrative expenditures:				
Director's fees	31,650			31,650
Office supplies and postage	21,469			21,469
Insurance	8,769	50		8,819
Communications	47,440			47,440
Permit fees	4,774			4,774
Other	18,072	4,505		22,577
	<u>132,174</u>	<u>4,555</u>	<u>0</u>	<u>136,729</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
EXPENDITURES (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CAPITAL OUTLAY</b>				
Authorized expenditures	\$ 348,353	\$	\$	\$ 348,353
Tap connection costs	5,400			5,400
	<u>353,753</u>	<u>0</u>	<u>0</u>	<u>353,753</u>
<b>DEBT SERVICE</b>				
Principal retirement	<u>0</u>	<u>730,000</u>	<u>0</u>	<u>730,000</u>
Interest and fees:				
Interest		285,181		285,181
Paying agent fees		2,000		2,000
	<u>0</u>	<u>287,181</u>	<u>0</u>	<u>287,181</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,262,789</u>	<u>\$ 1,065,886</u>	<u>\$ 0</u>	<u>\$ 3,328,675</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General 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 excluding maintenance taxes	\$ 1,741,088	\$ 1,028,444	\$	\$ 2,769,532
Maintenance tax receipts		982,327		982,327
Transfer of maintenance taxes	985,593			985,593
Principal portion of WHCRWA credits received	26,670			26,670
Overpayments by taxpayers		<u>17,383</u>		<u>17,383</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>2,753,351</u>	<u>2,028,154</u>	<u>0</u>	<u>4,781,505</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash disbursements for:				
Current expenditures	2,001,555	46,896		2,048,451
Capital outlay	353,753			353,753
Debt service		1,017,181		1,017,181
Transfer of maintenance taxes		985,593		985,593
Refund of taxpayer overpayments		<u>9,044</u>		<u>9,044</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>2,355,308</u>	<u>2,058,714</u>	<u>0</u>	<u>4,414,022</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	398,043	(30,560)	0	367,483
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>6,792,796</u>	<u>693,530</u>	<u>0</u>	<u>7,486,326</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 7,190,839</u>	<u>\$ 662,970</u>	<u>\$ 0</u>	<u>\$ 7,853,809</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

SEPTEMBER 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. 0107362773	1.87%	3/16/19	\$ 240,000	\$ 2,435
No. 83223370	2.30%	5/22/19	240,000	1,981
No. 40002102	2.70%	8/06/19	240,000	1,527
No. 1852003761	1.65%	3/15/19	240,000	2,159
No. 5596	2.10%	3/22/19	242,799	2,682
No. 8043970	2.00%	5/10/19	240,000	2,275
No. 3116003216	2.00%	4/11/19	152,406	1,436
No. 499434	2.35%	6/26/19	240,000	1,484
No. 51202891	2.35%	7/10/19	240,000	1,267
No. 6750717010	2.30%	7/16/19	<u>243,084</u>	<u>1,164</u>
			<u>\$ 2,318,289</u>	<u>\$ 18,410</u>
TexPool				
No. 791700003	Market	On demand	<u>\$ 4,039,897</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 1002680330	1.80%	3/29/19	<u>\$ 156,306</u>	<u>\$ 1,426</u>
TexPool				
No. 791700004	Market	On demand	<u>\$ 387,780</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 6,902,272</u>	<u>\$ 19,836</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 13,381	\$ 16,715
Additions and corrections to prior year taxes	<u>2,839</u>	<u>2,689</u>
Adjusted receivable, beginning of year	16,220	19,404
2017 ADJUSTED TAX ROLL	<u>980,333</u>	<u>1,004,243</u>
Total to be accounted for	996,553	1,023,647
Tax collections: Current tax year	(973,715)	(997,464)
Prior tax years	<u>(8,612)</u>	<u>(9,009)</u>
RECEIVABLE, END OF YEAR	<u>\$ 14,226</u>	<u>\$ 17,174</u>
RECEIVABLE, BY TAX YEAR		)
2007 and prior	\$ 1,394	\$ 2,508
2008	328	523
2009	395	575
2010	421	574
2011	453	734
2012	519	755
2013	857	1,155
2014	1,014	1,141
2015	1,060	1,152
2016	1,167	1,278
2017	<u>6,618</u>	<u>6,779</u>
RECEIVABLE, END OF YEAR	<u>\$ 14,226</u>	<u>\$ 17,174</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE (Continued)  
FOR THE YEAR ENDED SEPTEMBER 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	\$ 92,323,779	\$ 92,218,563	\$ 88,743,558	\$ 84,735,536
Improvements	388,206,054	362,050,927	353,515,955	311,534,509
Personal property	12,358,176	10,944,356	11,390,337	10,708,221
Less exemptions	<u>(14,693,779)</u>	<u>(21,261,673)</u>	<u>(39,485,813)</u>	<u>(31,364,929)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 478,194,230</u>	 <u>\$ 443,952,173</u>	 <u>\$ 414,164,037</u>	 <u>\$ 375,613,337</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.21000	\$ 0.23000	\$ 0.25000	\$ 0.27000
Maintenance tax rates	<u>0.20500</u>	<u>0.21000</u>	<u>0.23000</u>	<u>0.24000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.41500</u>	 <u>\$ 0.44000</u>	 <u>\$ 0.48000</u>	 <u>\$ 0.51000</u>
 TAX ROLLS	 <u>\$ 1,984,576</u>	 <u>\$ 1,953,469</u>	 <u>\$ 1,988,079</u>	 <u>\$ 1,915,732</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.3 %</u>	 <u>99.9 %</u>	 <u>99.9 %</u>	 <u>99.9 %</u>

\* Maximum tax rate approved by voters on November 5, 2013: \$1.50

See accompanying independent auditor's report.



MEMORIAL MUNICIPAL UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS  
SEPTEMBER 30, 2018

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2009</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 145,000	\$ 17,731	\$ 162,731
2020	145,000	11,931	156,931
2021	<u>140,000</u>	<u>5,950</u>	<u>145,950</u>
TOTALS	<u>\$ 430,000</u>	<u>\$ 35,612</u>	<u>\$ 465,612</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2011</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$	\$ 64,550	\$ 64,550
2020		64,550	64,550
2021		64,550	64,550
2022	100,000	64,550	164,550
2023	120,000	60,550	180,550
2024	150,000	55,750	205,750
2025	150,000	49,750	199,750
2026	350,000	43,750	393,750
2027	350,000	29,750	379,750
2028	<u>350,000</u>	<u>14,875</u>	<u>364,875</u>
TOTALS	<u>\$ 1,570,000</u>	<u>\$ 512,625</u>	<u>\$ 2,082,625</u>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT

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

SEPTEMBER 30, 2018

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2012</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 595,000	\$ 185,300	\$ 780,300
2020	630,000	173,400	803,400
2021	650,000	148,200	798,200
2022	720,000	122,200	842,200
2023	715,000	93,400	808,400
2024	705,000	64,800	769,800
2025	725,000	36,600	761,600
2026	190,000	7,600	197,600
<b>TOTALS</b>	<b><u>\$ 4,930,000</u></b>	<b><u>\$ 831,500</u></b>	<b><u>\$ 5,761,500</u></b>

<u>Due During Fiscal Years Ending September 30</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2019	\$ 740,000	\$ 267,581	\$ 1,007,581
2020	775,000	249,881	1,024,881
2021	790,000	218,700	1,008,700
2022	820,000	186,750	1,006,750
2023	835,000	153,950	988,950
2024	855,000	120,550	975,550
2025	875,000	86,350	961,350
2026	540,000	51,350	591,350
2027	350,000	29,750	379,750
2028	350,000	14,875	364,875
<b>TOTALS</b>	<b><u>\$ 6,930,000</u></b>	<b><u>\$ 1,379,737</u></b>	<b><u>\$ 8,309,737</u></b>

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Totals</u>
Bond Series	2009	2011	2012	
Interest Rate	4.00% to 4.25%	4.00% to 4.25%	2.00% to 4.00%	
Dates Interest Payable	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates	September 1, 2018/2021	September 1, 2022/2028	September 1, 2018/2026	
Bonds Outstanding at Beginning of Current Year	\$ 580,000	\$ 1,570,000	\$ 5,510,000	\$ 7,660,000
Less Retirements	<u>(150,000)</u>	<u>0</u>	<u>(580,000)</u>	<u>(730,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 430,000</u>	<u>\$ 1,570,000</u>	<u>\$ 4,930,000</u>	<u>\$ 6,930,000</u>
Current Year Interest Paid	<u>\$ 23,731</u>	<u>\$ 64,550</u>	<u>\$ 196,900</u>	<u>\$ 285,181</u>

Bond Descriptions and Original Amount of Issue

- (1) Memorial Municipal Utility District Unlimited Tax Refunding Bonds, Series 2009 (\$2,230,000)  
(2) Memorial Municipal Utility District Unlimited Tax Bonds, Series 2011 (\$1,570,000)  
(3) Memorial Municipal Utility District Unlimited Tax Refunding Bonds, Series 2012 (\$7,110,000)

Paying Agent/Registrar

(1) (2) (3) 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:	\$ 47,390,000	\$ 0	\$ 28,050,000
Amount Issued:	19,340,000		0
Remaining to be Issued:	28,050,000		28,050,000

Net Debt Service Fund deposits and investments balances as of September 30, 2018: \$659,664  
Average annual debt service payment for remaining term of all debt: 830,974

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND  
FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
<b>REVENUES</b>										
Property taxes	\$ 982,327	\$ 927,628	\$ 950,790	\$ 903,106	\$ 771,910	35.8 %	36.7 %	37.3 %	38.6 %	34.7 %
Water service	391,137	384,850	374,783	376,563	391,753	14.3	15.2	14.7	16.1	17.7
Sewer service	699,374	683,494	676,139	682,507	686,690	25.5	27.1	26.5	29.1	31.0
Surface water fees	478,694	415,925	349,520	300,277	282,753	17.5	16.5	13.7	12.8	12.8
Penalty	26,955	20,216	20,937	21,820	25,650	1.0	0.8	0.8	0.9	1.2
Tap connection and inspection fees	10,700	0	121,860	38,048	33,270	0.4	0.0	4.8	1.6	1.5
Interest on prepaid surface water capital contribution	35,898	36,881	31,459	0	0	1.3	1.5	1.2	0.0	0.0
Interest and other revenues	114,363	55,105	25,746	20,315	23,315	4.2	2.2	1.0	0.9	1.1
<b>TOTAL REVENUES</b>	<b><u>2,739,448</u></b>	<b><u>2,524,099</u></b>	<b><u>2,551,234</u></b>	<b><u>2,342,636</u></b>	<b><u>2,215,341</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	323,793	318,437	133,985	314,313	284,537	11.8	12.6	5.3	13.4	12.8
Professional fees	107,723	107,955	126,943	86,954	104,942	3.9	4.3	5.0	3.7	4.7
Contracted services	100,360	94,052	81,485	84,527	77,507	3.7	3.7	3.2	3.6	3.5
Utilities	75,278	66,627	74,163	81,834	85,246	2.7	2.6	2.9	3.5	3.8
Ground water pumpage fees	560,801	548,839	475,670	415,049	422,777	20.5	21.7	18.6	17.8	19.2
Repairs, maintenance and other operating expenditures	272,491	226,839	255,578	278,258	262,500	10.0	9.0	10.0	11.9	11.8
Garbage disposal	336,416	326,949	292,888	286,785	302,876	12.3	13.0	11.5	12.2	13.7
Administrative expenditures	132,174	136,206	166,857	102,080	129,082	4.8	5.4	6.5	4.4	5.8
Capital outlay	353,753	98,128	181,452	204,936	50,081	12.9	3.9	7.1	8.7	2.3
<b>TOTAL EXPENDITURES</b>	<b><u>2,262,789</u></b>	<b><u>1,924,032</u></b>	<b><u>1,789,021</u></b>	<b><u>1,854,736</u></b>	<b><u>1,719,548</u></b>	<b><u>82.6</u></b>	<b><u>76.2</u></b>	<b><u>70.1</u></b>	<b><u>79.2</u></b>	<b><u>77.6</u></b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b><u>\$ 476,659</u></b>	<b><u>\$ 600,067</u></b>	<b><u>\$ 762,213</u></b>	<b><u>\$ 487,900</u></b>	<b><u>\$ 495,793</u></b>	<b><u>17.4 %</u></b>	<b><u>23.8 %</u></b>	<b><u>29.9 %</u></b>	<b><u>20.8 %</u></b>	<b><u>22.4 %</u></b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b><u>1,773</u></b>	<b><u>1,777</u></b>	<b><u>1,771</u></b>	<b><u>1,765</u></b>	<b><u>1,767</u></b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b><u>1,741</u></b>	<b><u>1,746</u></b>	<b><u>1,739</u></b>	<b><u>1,734</u></b>	<b><u>1,739</u></b>					

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND  
FOR YEARS ENDED SEPTEMBER 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	\$ 1,006,473	\$ 1,016,242	\$ 1,033,697	\$ 1,017,855	\$ 1,041,495	97.8 %	98.3 %	98.5 %	98.0 %	98.0 %
Penalty and interest	12,424	10,161	10,322	16,342	13,442	1.2	1.0	1.0	1.6	1.5
Accrued interest on bonds received at date of sale	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Interest on deposits and investments	<u>10,383</u>	<u>6,912</u>	<u>5,091</u>	<u>3,808</u>	<u>4,330</u>	<u>1.0</u>	<u>0.7</u>	<u>0.5</u>	<u>0.4</u>	<u>0.5</u>
<b>TOTAL REVENUES</b>	<u>1,029,280</u>	<u>1,033,315</u>	<u>1,049,110</u>	<u>1,038,005</u>	<u>1,059,267</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<b>EXPENDITURES</b>										
Current:										
Professional fees	3,931	3,061	3,217	4,421	3,901	0.4	0.3	0.3	0.4	0.5
Contracted services	40,219	37,798	38,494	38,442	36,660	3.9	3.7	3.7	3.7	3.5
Other expenditures	4,555	2,984	3,064	4,131	2,491	0.4	0.3	0.3	0.4	0.5
Debt service:										
Principal retirement	730,000	710,000	705,000	680,000	680,000	71.0	68.7	67.1	65.5	66.4
Refunding contribution	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Interest and fees	<u>287,181</u>	<u>307,281</u>	<u>327,081</u>	<u>347,881</u>	<u>369,356</u>	<u>27.9</u>	<u>29.7</u>	<u>31.2</u>	<u>33.6</u>	<u>37.9</u>
<b>TOTAL EXPENDITURES</b>	<u>1,065,886</u>	<u>1,061,124</u>	<u>1,076,856</u>	<u>1,074,875</u>	<u>1,092,408</u>	<u>103.6</u>	<u>102.7</u>	<u>102.6</u>	<u>103.6</u>	<u>108.8</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>\$ (36,606)</u>	<u>\$ (27,809)</u>	<u>\$ (27,746)</u>	<u>\$ (36,870)</u>	<u>\$ (33,141)</u>	<u>(3.6) %</u>	<u>(2.7) %</u>	<u>(2.6) %</u>	<u>(3.6) %</u>	<u>(8.8) %</u>

MEMORIAL MUNICIPAL UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2018

Complete District Mailing Address: Memorial Municipal Utility District  
c/o Jeanne H. McDonald, P.C.  
2277 Plaza Drive, Suite 280  
Sugar Land, Texas 77479

District Business Telephone No.: 281-313-2213

Submission date of the most recent District Registration Form: May 16, 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>
Timothy C. Miller c/o Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	Elected 5/05/18- 5/07/22	\$ 7,200	\$ 2,553	President
Miguel G. Hull c/o Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	Elected 5/07/16- 5/02/20	7,200	3,527	Vice President/ Investment Officer
W. F. Trotter, Jr. c/o Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	Elected 5/05/18- 5/07/22	4,950	447	Secretary
Thomas H. Williams c/o Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	Elected 5/07/16- 5/02/20	6,750	1,610	Investment Officer
Crystal Sampson c/o Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	Elected 5/05/18- 5/07/22	5,550	0	Assistant Secretary

See accompanying independent auditor's report.

MEMORIAL MUNICIPAL UTILITY DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

SEPTEMBER 30, 2018

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Jeanne H. McDonald, P.C. 2277 Plaza Drive, Suite 280 Sugar Land, Texas 77479	12/01/99	\$ 62,451	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	3/07/96	3,931	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	1/07/93	24,981	Bookkeeper
Si Environmental, LLC 6420 Reading Road Rosenberg, Texas 77471	4/23/12	316,426	Operator
Triton Consulting Group, LLC 810 South Mason Road, Suite 309 Katy, Texas 77450	4/01/13	45,635	Website/ Communication Consultant
Costello, Inc. 2107 City West Blvd., 3 <sup>rd</sup> Floor Houston, Texas 77042	6/03/04	91,370	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	2/09/84	25,489	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	14,730	Central Appraisal District
Fort Bend Central Appraisal District 2801 B. F. Terry Rosenberg, Texas 77471	Legislative Action	0	Central Appraisal District
Masterson Advisors, LLC 4400 Post Oak Parkway, Suite 2370 Houston, Texas 77027	5/21/18	0	Financial Advisor
Hilltop Securities, Inc. 700 Milam, Suite 500 Houston, Texas 77002	Replaced 5/21/18	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1992	10,950	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