

OFFICIAL STATEMENT DATED SEPTEMBER 11, 2019

IN THE OPINION OF BOND 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 EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL NOT BE A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND 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 obligations for institutions.

NEW ISSUE – Book Entry Only

Moody's Investors Service, Inc. (Underlying) "Baa2"

\$2,400,000

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3 OF CAMERON COUNTY
(A Political Subdivision of the State of Texas, located within Cameron County)
UNLIMITED TAX CONTRACT REVENUE REFUNDING BONDS, SERIES 2019

Dated: October 1, 2019

Due: September 1, as shown on inside cover

The \$2,400,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2019, are being issued in part as current interest bonds (the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "PCABs," and together with the Current Interest Bonds, the "Bonds"). The Bonds are obligations of Paseo De La Resaca Municipal Utility District No. 3 of Cameron County (the "District" or the "Master District") payable solely from and to the extent of payments required to be made to the Master District by all participating entities (the "Pledged Contract Payments"), currently Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3 (collectively, the "Participants" and each, a "Participant") within the Service Area (herein defined) from the proceeds of an unlimited annual ad valorem contract tax levied by each Participant for debt service as set forth in the Master District Contract (herein defined) pursuant to the terms of a separate "Contract for Construction and Financing of Regional Wastewater Collection System and Regional Water Delivery System" executed between the Master District and each Participant with identical terms (collectively, the "Master District Contract") as described under "SUMMARY OF CERTAIN DOCUMENTS – Master District Contract." The Bonds are limited obligations of the Master District payable solely from the Pledged Contract Payments pursuant to the Indenture (herein defined), and are not obligations of the State of Texas; Cameron County, Texas; the City of Brownsville, Texas; or any political subdivision or entity other than the Master District. Neither the faith and credit nor the taxing power of the State of Texas; Cameron County, Texas; the City of Brownsville, Texas; or any entity other than the District is pledged to the payment of the principal of or interest on the Bonds. See "THE BONDS – Source of Payment."

Principal of the Bonds is payable upon presentation to the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Current Interest Bonds accrues from October 1, 2019, and is payable March 1, 2020, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the PCABs will accrue from the date of delivery, will compound on March 1, 2020, and on each September 1 and March 1 thereafter, and will be payable only at maturity. Interest on the Current Interest Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners ("Registered Owners") as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Current Interest Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof. The PCABs are fully registered bonds in denominations of \$5,000 or any integral multiple thereof, including both principal and accrued and compounded interest (the "Maturity Amount").

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 Current Interest Bonds and the Maturity Amount of the PCABs will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS – Book-Entry-Only System."

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

The proceeds from sale of the Bonds will be used to currently refund portions of the Master District's outstanding bonds and pay certain costs of issuance associated with the Bonds. The Bonds are issued pursuant to the authority of the Master District Contract; an order of the Master District authorizing the issuance of the Bonds; Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended.

The Bonds are offered by the underwriter listed below (the "Underwriter") subject to prior sale, when, as and if issued by the Master District and accepted by the Underwriter, subject to the approval of the Attorney General of Texas and of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, as Bond Counsel. Certain legal matters will be passed on for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds is expected on or about October 17, 2019.

SAMCO CAPITAL MARKETS, INC.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$375,000 Premium Capital Appreciation Bonds (a)

Maturity (September 1)	Principal Amount	Maturity Amount	Initial Reoffering Yield (b)	CUSIP No. 702595 (c)	Maturity (September 1)	Principal Amount	Maturity Amount	Initial Reoffering Yield (b)	CUSIP No. 702595 (c)
2020	\$ 30,000	\$ 35,000	2.000%	DE6	2021	\$ 345,000	\$ 415,000	2.050%	DF3

\$2,025,000 Current Interest Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No. 702595 (c)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (b)	CUSIP No. 702595 (c)
2022	\$ 425,000	3.000%	1.840%	DG1	2025 (d)	\$ 345,000	3.000%	2.140%	DK2
2023	440,000	3.000%	1.960%	DH9	2026 (d)	365,000	3.000%	2.220%	DL0
2024	450,000	3.000%	2.070%	DJ5					

- (a) Interest is compounded semiannually and payable only at maturity. The PCABs are not subject to redemption prior to maturity.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the yield resulting when priced to maturity.
- (c) CUSIP numbers will be assigned to the Bonds by CUSIP Global Service, managed by S&P Global Market Intelligence LLC on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds.
- (d) Current Interest Bonds maturing on September 1, 2025, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purpose.

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INTRODUCTION

This Preliminary Official Statement provides certain information in connection with the issuance by Paseo De La Resaca Municipal Utility District No. 3 of Cameron County (the "District" or the "Master District") of its \$2,400,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2019, being issued in part as current interest bonds (the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "PCABs," and together with the Current Interest Bonds, the "Bonds").

The Bonds are issued pursuant to the authority of three separate contracts, as amended, entitled "Contract for Construction and Financing of Regional Wastewater Collection System and Regional Water Delivery System" (collectively, the "Master District Contract") executed between the Master District and each Participant (herein defined); an order of the Master District authorizing the issuance of the Bonds (the "Bond Order"); Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. (referred to herein as the "Underwriter") has agreed to purchase the Bonds from the District for \$2,505,112.23 (being the par amount of the Bonds, plus a net original issue premium on the Bonds of \$135,559.85, and less an underwriter's discount of \$30,447.62, plus accrued interest on the Current Interest Bonds to the date of delivery. The Underwriter's obligation is to purchase all of the Bonds, if any Bonds are purchased.

Prices and Marketability

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The Master District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of

the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned an underlying credit rating of "Baa2" to the Bonds. An explanation of the ratings may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the rating of Moody's.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The District..... Paseo De La Resaca Municipal Utility District No. 3 of Cameron County (the “District” or the “Master District”), is a political subdivision of the State of Texas located both within Cameron County, Texas, and the City of Brownsville, Texas (the “City”). See “THE MASTER DISTRICT.”

The Bonds..... The District’s \$2,400,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2019 (the “Bonds”), are dated October 1, 2019. The Bonds are being issued, in part, as Premium Capital Appreciation Bonds (the “PCABs”) maturing on September 1 in the years 2020 and 2021, and, in part, as Current Interest Bonds (the “Current Interest Bonds”) maturing on September 1 in each of the years 2022 through 2026. The PCABs and Current Interest Bonds are collectively referred to herein as the “Bonds.” Interest on the Current Interest Bonds accrues from October 1, 2019, at the rates set forth on the inside cover page hereof, and is payable March 1, 2020, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. Interest on the PCABs accrues from the date of delivery at the rates set forth on the inside cover page hereof, will compound on March 1, 2020, and on each September 1 and March 1 thereafter, and will be payable only at maturity. The Current Interest Bonds maturing on or after September 1, 2025, are subject to redemption, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The PCABs are not subject to redemption prior to maturity. See “THE BONDS – Redemption of the Bonds.”

Source of Payment Principal of and interest on the Bonds (together with the Master District’s previously issued and outstanding unlimited tax contract revenue bonds) are payable from and secured by unconditional obligations to make certain debt service requirement payments that are to be made severally by the Participants (herein defined) pursuant to a Master District Contract (herein defined) executed between the Master District and each Participant (collectively the “Pledged Contract Payments”). By execution of the Master District Contract, each Participant has agreed to pay a pro rata share of debt service on the Bonds based upon the certified assessed valuation of such Participant as a percentage of the total assessed valuation within the Service Area (herein defined). Participants are obligated to make such Pledged Contract Payments from the proceeds of an annual unlimited ad valorem contract tax levied by such Participant on land within its boundaries for debt service requirements (the “Contract Tax”). No Participant is liable for the payments due by any other Participant. The Bonds are also secured by a Debt Service Fund (herein defined) and Reserve Fund (herein defined) held by the Paying Agent/Registrar (herein defined)

pursuant to the terms of the Indenture (herein defined). THE BONDS ARE LIMITED OBLIGATIONS OF THE MASTER DISTRICT, PAYABLE SOLELY FROM CERTAIN PLEDGED CONTRACT PAYMENTS BY EACH PARTICIPANT AND CERTAIN FUNDS HELD BY THE PAYING AGENT/REGISTRAR UNDER THE INDENTURE, AND ARE NOT OBLIGATIONS OF THE STATE OF TEXAS; CAMERON COUNTY, TEXAS; THE CITY; OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY. No water or sewer system revenues will be available to pay principal of or interest on the Bonds. See “THE BONDS – Source of Payment” and “SUMMARY OF CERTAIN DOCUMENTS – Master District Contract.”

Remaining Outstanding Bonds.....	The Master District has previously issued an aggregate of \$10,015,000 principal amount of unlimited tax contract revenue bonds: \$1,485,000 Unlimited Tax Contract Revenue Bonds, Series 1999; \$1,470,000 Unlimited Tax Contract Revenue Bonds, Series 2001; \$3,200,000 Unlimited Tax Contract Revenue Bonds, Series 2003; and \$3,860,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2011. Following the issuance of the Bonds, \$2,770,000 principal amount of such previously issued series of bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING – Remaining Outstanding Bonds” and “THE BONDS – Authority for Issuance.”
Use of Proceeds	Proceeds from sale of the Bonds, plus certain other lawfully available funds of the District, will be used to currently refund \$970,000 principal amount of the \$3,200,000 Unlimited Tax Contract Revenue Bonds, Series 2003 (the “Series 2003 Refunded Bonds”) and \$1,430,000 principal amount of the \$3,860,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2011 (the “Series 2011 Refunded Bonds”). The Series 2003 Refunded Bonds and the Series 2011 Refunded Bonds are collectively referred to herein as the “Refunded Bonds.” Proceeds from sale of the Bonds will also be used to pay costs of issuance of the Bonds. The sale of the Bonds and the refunding of the Refunded Bonds resulted in an annual and net present value savings in the District’s current annual debt service requirements. See “PLAN OF FINANCING.”
Payment Record.....	The Master District has never defaulted on the timely payment of principal or interest on its bonded indebtedness. See “THE BONDS – Source of Payment.”
Authority for Issuance.....	The Bonds are issued pursuant to the authority of three separate contracts, as amended, entitled “Contract for Construction and Financing of Regional Wastewater Collection System and Regional Water Delivery System” (collectively, the “Master District Contract”) executed between the Master District and each Participant; an order of the Master District authorizing the issuance of the Bonds (the “Bond Order”); Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended. See “INVESTMENT CONSIDERATIONS – Future Debt,” “THE BONDS – Authority for Issuance,” and “THE BONDS – Issuance of Additional Debt.”

Ratings.....	Moody's Investors Service, Inc. (Underlying) – "Baa2." See "RATINGS."
Bond Counsel	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas. See "LEGAL MATTERS."
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.
Underwriter's Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
Verification Agent	Public Finance Partners LLC, Rockford, Minnesota.
Paying Agent/Registrar	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

THE MASTER DISTRICT

Description.....	The Master District is a political subdivision of the State of Texas, created by an order of the Texas Natural Resource Conservation Commission (the predecessor to the Texas Commission on Environmental Quality (the "TCEQ")) on June 25, 1997, pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, to provide water, sanitary sewer and drainage facilities to land within its boundaries. Pursuant to agreements entered into with Paseo De La Resaca Municipal Utility District Nos. 1 and 2, and itself, the Master District also serves as the regional provider of certain water, wastewater and drainage facilities to land located within the Participants. As a result of such agreements, the Master District is expected to provide certain water, wastewater and drainage facilities to serve the approximately 888.114 acres of land located within such three districts (the "Service Area"), which area encompasses substantially all of the master planned community known as "Paseo De La Resaca." See "SUMMARY OF CERTAIN DOCUMENTS – Master District Contract" and "THE MASTER DISTRICT – The Participants."
Consent Agreement.....	Creation of each of the Participants was contingent upon the consent of the City, within whose boundaries the Participants exist. The City, the City's Public Utilities Board ("PUB") and each of the Participants have entered into an agreement, as amended, (i) limiting the ability of each Participant to finance only certain trunk water, wastewater and drainage lines; (ii) requiring such water and wastewater facilities to be conveyed to the City so that the City may provide retail water and wastewater service to customers in the Service Area; (iii) committing the City to providing sufficient water supply and wastewater treatment service for full development of the Service Area; (iv) placing limits on the Participants ability to issue bonds; and (v) prohibiting the Participants from purchasing, owning or operating any recreational facilities. See "SUMMARY OF CERTAIN DOCUMENTS – Agreements Concerning Creation and Operation of Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3."
The Service Area	The Service Area is approximately 888.114 acres located within the approximately 1,000 acre master-planned community of Paseo De La Resaca which is located approximately 1.2 miles east of the intersection of U.S. Highway 77/83 and F.M. 802 and within the city limits of the City. See "THE MASTER DISTRICT – The Service Area."

Development within the District.....Approximately 850 acres have been developed within the Service Area with water, wastewater and drainage facilities to serve single-family residential, multi-family residential and commercial use. The District is within Paseo De La Resaca, a 1,000 acre Master Planned Community designed by Richard Browne (planner for the Woodlands, Texas and Columbia, Maryland), which began development in 1995. The development program is approximately 97% complete with about 1,000,000 square feet of commercial and public buildings, 1,000 apartment units (700 complete and rent-stabilized with an average occupancy of 95%, and 300 under construction with no occupancy) in four (4) complexes, and only 66 vacant lots remaining out of 1,867 home sites. The mix of housing was approximately 60% entry-level, 30% move-up, and 10% specialty (garden home, town home, etc.) or top of market. Only approximately 30 acres are yet undeveloped in Paseo De La Resaca.

Paseo De La Resaca boasts a 120-acre linear park with trails connecting the two elementary schools to all 21 neighborhoods and businesses. Amenities within the Master District include an Olympic Swimming Center (Brownsville Independent School District), a 36,000 square-foot Event Center (the City), a 16-court USTA Recognized Tennis Center (Brownsville Tennis Association), and connects to the Historic Battlefield Hike & Bike Trail, which connects Paseo De La Resaca with the historic downtown of the City and the Palo Alto National Battlefield Monument, the only Mexican-American War battlefield in the United States. The remaining land within the Service Area is comprised of approximately 125 undevelopable acres and approximately 30 undeveloped, but developable acres. See “DEVELOPMENT WITHIN THE SERVICE AREA.”

Developer.....Development of land in the Service Area has been principally undertaken by numerous entities (the “Developing Entities”) created by or on behalf of the four principal landowners in the Service Area. Such development in the Service Area has been managed by William P.C. Hudson (“Hudson”) and/or Domus Development, L.C., a Texas limited liability company (“Domus”), controlled by Hudson. The Developing Entities, Domus, and Hudson are collectively referred to as the “Developer.” See “DEVELOPMENT WITHIN THE SERVICE AREA.”

HomebuildersHomebuilders active in the Service Area include Exquisite Homes, Chula Vista Homes, DTRAM Builders, Garcia Builders, Zagar Homes and JV Builders LLC. Homes constructed within the Service Area range in price from approximately \$150,000 to over \$500,000 and range in size from approximately 2,000 square feet to over 5,000 square feet. See DEVELOPMENT WITHIN THE SERVICE AREA – Homebuilders Active in the Service Area.”

Water and Wastewater Facilities
Being Constructed by the
Master District.....

The Master District, in its capacity as the regional provider of certain water, wastewater and drainage facilities serving the Service Area (collectively, the “Master District Facilities”) has contracted with each of the Participants to construct such facilities. Upon the completion of the construction of such water and

wastewater facilities, such water and wastewater facilities are to be conveyed to the City, which is providing the water supply and wastewater treatment services. See “SUMMARY OF CERTAIN DOCUMENTS – Master District Contract” and “SUMMARY OF CERTAIN DOCUMENTS – Agreements Regarding Creation and Operation of Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3.”

THE MASTER DISTRICT CONTRACTS

Participants..... The Master District has entered into separate contracts with Paseo De La Resaca Municipal Utility District No. 1 (“MUD 1”), Paseo De La Resaca Municipal Utility District No. 2 (“MUD 2”), and the District (collectively, the “Participants” and each, a “Participant”), each organized and operating pursuant to Article 16, Section 59 of the Constitution of Texas and Chapters 49 and 54, Texas Water Code, which contracts authorize the Master District to issue contract revenue bonds sufficient to complete acquisition and construction of the Master District Facilities as needed to serve all Participants in the Service Area.

Debt Service Payments By execution of the Master District Contract, each Participant has agreed to levy, assess, and collect an ad valorem Contract Tax (herein defined) on taxable property within the boundaries of such Participant, without limit as to rate or amount, sufficient to make timely payments of all charges including debt service on the Master District bonds, including the Bonds. The Participants agree to pay their pro rata share of debt service requirements to the Master District which has directly assigned such portion of the Pledged Contract Payments to the Paying Agent/Registrar under the Indenture. The pro rata share of each Participant will be determined by the ratio of the total certified assessed value within a Participant, divided by the cumulative total of the certified assessed value of all the Participants. The pro rata share of debt service is calculated on certified assessed value only, and the pro rata share is not to be calculated on a basis of water or wastewater or demand/equivalent connections. The Pledged Contract Payments assigned to the Paying Agent/Registrar shall include principal and interest on the Bonds, all charges and expenses of paying agents, and all amounts required to establish and maintain funds established under the Bond Order or the Indenture. See “THE BONDS – Source of Payment” and “SUMMARY OF CERTAIN DOCUMENTS – Master District Contract.”

The Participants are obligated severally, but not jointly, to make Pledged Contract Payments to the Master District in an amount sufficient to pay their pro rata share of debt service requirements on the Bonds. No Participant is obligated, contingently or otherwise, to make any Pledged Contract Payments owed by any other Participant. See “THE MASTER DISTRICT – The Participants” and “THE BONDS – Pledged Contract Payments by the Participants.”

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS," BEFORE MAKING AN INVESTMENT DECISION.

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SELECTED FINANCIAL INFORMATION

(UNAUDITED)

Assessed Valuation of the Participants

Participants	2019 Assessed Valuation (a)	% of Total
Paseo De La Resaca MUD No. 1	\$ 92,732,839	25.56%
Paseo De La Resaca MUD No. 2	\$ 153,124,806	42.20%
Paseo De La Resaca MUD No. 3	<u>\$ 116,969,254</u>	<u>32.24%</u>
Total	<u>\$ 362,826,899</u>	<u>100.00%</u>

(a) Represents the assessed valuation of all taxable property in the Service Area as of January 1, 2019, as certified by the Appraisal District (herein defined). See "TAXING PROCEDURES."

2019 Tax Rate per \$100 of Assessed Valuation

Participants	Debt Service Tax Rate	Maintenance Tax Rate	Contract Tax Rate	Total Tax Rate
Paseo De La Resaca MUD No. 1	\$ 0.150	\$ 0.110	\$ 0.135	\$ 0.395
Paseo De La Resaca MUD No. 2	0.050	0.160	0.130	0.340
Paseo De La Resaca MUD No. 3	0.190	0.070	0.130	0.390

Direct Debt Ratio

Total Direct Debt (the Remaining Outstanding Bonds and the Bonds)	\$ 2,770,000
As a Percentage of the 2019 Assessed Valuation of the Participants.....	0.76%

Status of Development in the Service Area as of July 15, 2019

Participants	Total Acreage	Homes Completed	Homes Under Construction	Remaining Developed Vacant Lots
Paseo De La Resaca MUD No. 1	234.789	254	5	15
Paseo De La Resaca MUD No. 2	423.451	639	6	21
Paseo De La Resaca MUD No. 3	<u>229.874</u>	<u>891</u>	<u>6</u>	<u>30</u>
Total	<u>888.114</u>	<u>1,784</u>	<u>17</u>	<u>66</u>

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Balance of Master District Debt Service Funds as of June 19, 2019

Debt Service Fund Balance (as of June 19, 2019)	\$	920,840 (a)(b)
Average Annual Debt Service Requirements (2020-2026).....	\$	439,908 (c)
Combined Contract Tax Rate Required to Pay Average Annual Debt Service Requirements Based Upon the Total 2019 Assessed Valuation (\$362,826,899) of the Participants at 95% Collections.....	\$	0.13
Maximum Annual Debt Service Requirement (2023).....	\$	493,000 (c)
Combined Contract Tax Rate Required to Pay Maximum Annual Debt Service Requirements Based Upon the Total 2019 Assessed Valuation (\$362,826,899) of the Participants at 95% Collections.....	\$	0.15

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- (a) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (b) The Debt Service Fund balance includes a Reserve Fund balance of \$20,820.
- (c) Includes the Bonds and the Outstanding Bonds, less the Refunded Bonds.

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OFFICIAL STATEMENT

\$2,400,000

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3 OF CAMERON COUNTY

(A Political Subdivision of the State of Texas Located in Cameron County, Texas)

Unlimited Tax Contract Revenue Refunding Bonds, Series 2019

INTRODUCTION

This Preliminary Official Statement of Paseo De La Resaca Municipal Utility District No. 3 of Cameron County (the "District" or the "Master District") is provided to furnish information with respect to the issuance by the District of its \$2,400,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2019, being issued in part as current interest bonds (the "Current Interest Bonds") and in part as premium capital appreciation bonds (the "PCABs," and together with the Current Interest Bonds, the "Bonds").

The Bonds are issued pursuant to the authority of three separate contracts, as amended, entitled "Contract for Construction and Financing of Regional Wastewater Collection System and Regional Water Delivery System" (collectively, the "Master District Contract") executed between the Master District and each Participant (herein defined); an order of the Master District authorizing the issuance of the bonds (the "Bond Order"); Article XVI, Section 59 of the Texas Constitution; the laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended; and Section 1207, Texas Government Code, as amended. See "INVESTMENT CONSIDERATIONS – Future Debt" and "THE BONDS – Authority for Issuance," and "- Issuance of Additional Debt."

Following in this Official Statement are descriptions of the Bonds, the Bond Order, the Indenture (herein defined), the Master District Contract, and certain other information about the Master District and Paseo De La Resaca Municipal Utility District No. 1 ("MUD 1"), Paseo De La Resaca Municipal Utility District No. 2 ("MUD 2"), and the District (collectively, the "Participants" and each, a "Participant"). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents referenced herein may be obtained from the Master District c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056 ("Bond Counsel"), upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the Participants' operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019. See "TAXING PROCEDURES – Rollback of Operation and Maintenance Tax Rate."

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the Master District upon request to Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and, together with the Indenture, prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the Master District.

The Bonds are dated October 1, 2019. The Bonds are being issued, in part, as PCABs maturing on September 1 in each of the years 2020 through 2021, and, in part, as Current Interest Bonds maturing on September 1 in the years 2022 and 2026. Interest on the Current Interest Bonds accrues from October 1, 2019, at the rates set forth on the inside cover page hereof, and is payable March 1, 2020, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. Interest on the PCABs accrues from the date of delivery at the rates set forth on the inside cover page hereof, will compound on March 1, 2020, and on each September 1 and March 1 thereafter, and will be payable only at maturity. The Current Interest Bonds

maturing on or after September 1, 2025, are subject to redemption, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The PCABs are not subject to redemption prior to maturity. The Current Interest Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof. The PCABs are fully registered bonds in denominations of \$5,000 or any integral multiple thereof, including both principal and accrued and compounded interest (the "Maturity Amount"). See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the inside cover page of this Official Statement.

Principal of the Bonds will be payable to the registered owners (the "Registered Owner(s)") at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Current Interest Bonds will be payable by check, dated as of the Interest Payment Date (as defined on the cover page), and mailed by the Paying Agent to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner. Interest on the PCABs will be payable at maturity only.

The Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. The Maturity Amount of the PCABs and the principal of and interest on the Current Interest Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein.

Book-Entry-Only System

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

The District and the Financial Advisor cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (herein defined), (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners (herein defined), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities

certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 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 holder of ownership interest of each actual purchase of each Bond ("Beneficial Owner(s)") 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 does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds as 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.

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

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

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/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect 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 Direct or Indirect Participant and not of DTC, Paying Agent/Registrar or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading the Official Statement, it should be understood that while the Bonds are in the book-entry-only form, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Successor Paying Agent/Registrar

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the book-entry-only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount or Maturity Amount, as applicable, of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount or Maturity Amount, as applicable, for a Bond, or any integral multiple thereof for any one maturity, and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of, the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or Paying Agent/Registrar may require payment of a sum sufficient to cover any tax, governmental charge payable, or other expenses in connection therewith.

Redemption of the Bonds

The Current Interest Bonds maturing on September 1, 2025, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2024, or on

any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such 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 bond register. If less than all of the Current Interest Bonds are redeemed at any time, the maturities of the Current Interest Bonds to be redeemed shall be selected by the District. If less than all of the Current Interest Bonds of a certain maturity are to be redeemed, the particular Current Interest Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Current Interest Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Current Interest Bonds so called for redemption and issuance of a new Current Interest Bond in the principal amount equal to the portion of such Bond not redeemed. The PCABs are not subject to optional redemption prior to stated maturity.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Yield on Premium Capital Appreciation Bonds

The approximate yields of the PCABs as set forth on inside cover page of this Official Statement are based upon the initial offering price therefor set forth on the inside cover page of this Official Statement. Such offering prices include the principal amount of such PCABs plus premium, if any, equal to the amount by which such offering prices exceed the principal amount of such PCABs. The respective yields on the PCABs to a particular purchaser may differ depending upon the prices paid by the purchaser. For various reasons, securities that do not pay interest periodically, such as the PCABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Authority for Issuance

At separate elections held within the boundaries of each Participant on August 9, 1997, the voters of each Participant approved the Master District Contract, thereby authorizing the levy and collection of the Contract Tax (herein defined) and the issuance of the Bonds and future unlimited tax contract revenue bonds. See "Issuance of Additional Debt" below.

The Bonds are issued by the Master District pursuant to the Indenture, the Master District Contract, the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207, Texas Government Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment, the sufficiency of the Pledged Revenues (herein defined) to pay principal and interest on the Bonds or upon the adequacy of the information contained in this Official Statement.

Source of Payment

The Bonds (together with the Master District's previously issued and outstanding unlimited tax contract revenue bonds), are payable solely from and to the extent that certain payments required by the Master District Contract are made by the Participants to the Paying Agent/Registrar for the purpose of paying the debt service on the Bonds. See "COMPOSITE FINANCIAL STATEMENT - Unlimited Tax Contract Revenue Bonds" and "- Debt Service Requirements." The Master District Contract provides that all Participants shall pay a pro rata share of debt service on the Master District bonds, including the Bonds and any previously

issued and outstanding bonds, and any future unlimited tax contract revenue bonds, based upon each Participant's certified assessed valuation as a percentage of the total assessed valuation of taxable property in the Participants boundaries (the "Service Area"). The debt service requirements shall be calculated to include the charges and expense of paying agents/registrars, the principal, interest and redemption requirements of the Bonds and all amounts required to establish and maintain funds established under the Bond Order or the Indenture. Each Participant is obligated to pay its pro rata share of the annual debt service on the Bonds from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount, or from any other legally available funds of each Participant. Each Participant's pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a contract tax for the purpose of paying debt service on the Bonds is the sole responsibility of each Participant. See "SUMMARY OF CERTAIN DOCUMENTS."

The Bonds are secured by an Indenture (the "Indenture") from the Master District to Paying Agent/Registrar. Pursuant to the Indenture, the Master District has assigned to the Paying Agent/Registrar all of the Master District's right, title and interest in and to the Pledged Contract Payments (herein defined) required by the Master District Contract. See "SUMMARY OF CERTAIN DOCUMENTS - Indenture."

In the Creation Agreements (herein defined), the Public Utilities Board (the "PUB") of the City of Brownsville, Texas (the "City"), has contracted to provide water supply and wastewater treatment service for the Service Area. The Creation Agreement also provides that all revenues received from the provision of water and sewer services to customers within the Service Area belong to the PUB. Accordingly, no water or sewer system revenues will be available to pay principal of or interest on the Bonds. See "SUMMARY OF CERTAIN DOCUMENTS - Agreements Concerning Creation and Operation of the Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3."

Pledged Contract Payments by the Participants

Principal of and interest on the Bonds are payable from and secured by an unconditional obligation to make certain payments that are to be made severally by the Participants pursuant to the Master District Contract for the purpose of paying their pro rata shares of debt service requirements which includes principal of and interest on the Bonds and any additional bonds, amounts to be deposited in the Reserve Fund and fees and charges due to the Paying Agent/Registrar (the "Pledged Contract Payments"). By execution of the Master District Contract, the Participants have each agreed to pay such pro rata share of debt service on the Bonds based upon the certified assessed valuation of each Participant as a percentage of the total assessed valuation of the Service Area. Participants are obligated to make such debt service requirement payments from the proceeds of an annual unlimited ad valorem contract tax levied by such Participant on land within its boundaries for such purpose (the "Contract Tax"). No Participant is liable for the payments due by any other Participant. The Bonds are limited obligations of the Master District, payable solely from the Pledged Contract Payments and certain funds held by the Paying Agent/Registrar under the Indenture, and are not obligations of the State of Texas; Cameron County, Texas (the "County"); the City; or any entity other than the Master District. See "SUMMARY OF CERTAIN DOCUMENTS - Master District Contract." The Master District shall calculate on or before September 1 of each year, or as soon thereafter as practical, the amount of Pledged Contract Payments due from each Participant in the following calendar year. The Contract Payments shall be billed to each Participant by the Master District on or before September 1 of the year prior to the year in which such Pledged Contract Payments become due, or as soon thereafter as practical. Such Pledged Contract Payments shall be due and payable from each Participant directly to the Paying Agent/Registrar semiannually on or before August 15 and February 15 of each year.

Unconditional Obligation to Pay

All charges imposed by the Master District to pay debt service on the Bonds will be made by the Participants without set-off, counterclaim, abatement, suspension, or diminution, nor will any Participant have any right to terminate the Master District Contract nor be entitled to the abatement of any such payment or any reduction thereof nor will the obligations of the Participants be otherwise affected for any reason, including, without limitation, acts or conditions of the Master District that might be considered failure of consideration, eviction or constructive eviction, destruction or damage to the water, wastewater and drainage facilities serving the Service Area (collectively, the "Master District Facilities"), or failure of the Master District to

perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Master District Contract. All sums required to be paid by the Participants to the Master District for such purposes will continue to be payable in all events and the obligations of the Participants will continue unaffected, unless the requirement to pay is reduced or terminated pursuant to an express provision of the Master District Contract. If any Participant disputes the amount to be paid to the Master District, the Participant shall nonetheless promptly make payments as billed by the Master District, and if it is subsequently determined by agreement, arbitration, regulatory decision, or court decision that such disputed payment should have been less, the Master District will then make proper adjustments to all Participants so that the appropriate Participant will receive credit for its over payments. See "SUMMARY OF CERTAIN DOCUMENTS - Master District Contract."

Funds

Pursuant to the Indenture, a "Debt Service Fund" and a "Reserve Fund" have been created as trust funds for the benefit of the Registered Owners. The proceeds from Pledged Contract Payments collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in the Debt Service Fund. See "SUMMARY OF CERTAIN DOCUMENTS – Indenture."

Abolishment and Consolidation

In the Creation Agreement, the City agrees that it shall not dissolve a Participant, including the Master District, until the earlier of 15 years from the date of the Creation Agreement (September 13, 1996), which date has passed, or until 90% of the dollar value of those portions of the Utility Lines (herein defined) located within such Participant have been constructed. See "SUMMARY OF CERTAIN DOCUMENTS – Agreements Concerning Creation and Operation of the Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3." Under Texas law, in the event that the City chooses to dissolve the Master District, or the other Participants, the City must assume the assets, functions and obligations of the dissolved district (including any outstanding bonds or contractual obligations). No representation is made concerning the likelihood of the City abolishing the Master District or any of the Participants, or the ability of the City to make debt service payments on the Bonds, or the Pledged Contract Payments under the Master District Contract, should such abolishment occur.

Issuance of Additional Debt

The Master District may issue an unlimited amount of additional contract tax revenue bonds necessary to provide those improvements and facilities, pursuant to the terms of the Master District Contract, with the approval of the Texas Commission on Environmental Quality (the "TCEQ") and the Participants which would be responsible for the debt service on such bonds. See "Source of Payment" above and "INVESTMENT CONSIDERATIONS – Future Debt." The Bond Order imposes no limitation on the amount of additional unlimited tax contract revenue bonds which may be issued by the Master District. Any additional unlimited tax contract revenue bonds issued by the Master District may be on a parity with the Bonds.

The issuance of additional obligations may increase the Master District's and the Participants' tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. The Master District does not employ any formula, with respect to assessed valuations, tax collections, or otherwise, to limit the amount of parity bonds which it may issue. The issuance of additional bonds for the construction of additional Master District Facilities is subject to approval by the TCEQ pursuant to issuance guidelines established by it. See "INVESTMENT CONSIDERATIONS - Future Debt."

Specific Tax Covenants

In the Bond Order, the Master District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The Master District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Additional Covenants

The Master District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the Master District.

Amendments to the Bond Order

The Master District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the Master District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable; reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon; change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable; or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

No Arbitrage

The District will certify, on the date of delivery of the Bonds, 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 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 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.

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 (such as the Paying Agent/Registrar) 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, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less

than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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 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.

Registered Owners' Remedies

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. Upon the occurrence of an event of default, the Paying Agent/Registrar may proceed to protect and enforce the rights of the Registered Owners of the Bonds. The Indenture does provide certain limitations on the rights of Registered Owners to institute suits, actions or proceedings at law or in equity upon the occurrence of an event of default. Subject to the limitations in the Indenture, a Registered Owner could presumably obtain a judgment against the Master District for a default in the payment of principal or interest, however such judgment could not be satisfied by execution against any property of the Master District or within the Service Area. If the Master District defaults, the Paying Agent/Registrar or Registered Owners could petition for a

writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Master District and the Master District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order and the Master District Contract. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "INVESTMENT CONSIDERATIONS – Registered Owners' Remedies and Bankruptcy" and "SUMMARY OF CERTAIN DOCUMENTS – Indenture."

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Master District. Municipal utility districts, such as the Master District, must obtain the approval of the TCEQ prior to filing for bankruptcy.

PLAN OF FINANCING

Use and Distribution of Bond Proceeds

Proceeds from sale of the Bonds, plus certain other lawfully available funds of the District, will be used to currently refund \$970,000 principal amount of the \$3,200,000 Unlimited Tax Contract Revenue Bonds, Series 2003 (the "Series 2003 Refunded Bonds") and \$1,430,000 principal amount of the \$3,860,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2011 (the "Series 2011 Refunded Bonds"). The Series 2003 Refunded Bonds and the Series 2011 Refunded Bonds are collectively referred to herein as the "Refunded Bonds." Proceeds from sale of the Bonds will also be used to pay costs of issuance of the Bonds. The sale of the Bonds and the refunding of the Refunded Bonds resulted in an annual and net present value savings in the District's current annual debt service requirements.

The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth as follows:

<u>Series 2003 Refunded Bonds</u>		<u>Series 2011 Refunded Bonds</u>	
<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Maturity Date</u>
\$ 220,000	09/1/2023	\$ 385,000	09/1/2021
235,000	09/1/2024	410,000	09/1/2022
250,000	09/1/2025	210,000	09/1/2023
<u>265,000</u>	09/1/2026	215,000	09/1/2024
\$ 970,000		100,000	09/1/2025
		<u>110,000</u>	09/1/2026
		\$ 1,430,000	

Redemption Date: October 17, 2019

Aggregate Principal Amount of Refunded Bonds: \$2,400,000

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Remaining Outstanding Bonds

The Master District has previously issued an aggregate of \$10,015,000 principal amount of unlimited tax contract revenue bonds: \$1,485,000 Unlimited Tax Contract Revenue Bonds, Series 1999 (the "Series 1999 Bonds"); \$1,470,000 Unlimited Tax Contract Revenue Bonds, Series 2001 (the "Series 2001 Bonds"); \$3,200,000 Unlimited Tax Contract Revenue Bonds, Series 2003 (the "Series 2003 Bonds"); and \$3,860,000 Unlimited Tax Contract Revenue Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds"). Following the issuance of the Bonds, \$2,770,000 principal amount of such previously issued series of bonds will remain outstanding (the "Remaining Outstanding Bonds"), as shown below:

	Original Principal Amount	Principal Currently Outstanding	Less: Refunded Bonds	Remaining Outstanding Bonds
Series 1999 Bonds	\$ 1,485,000	-0-	-0-	-0-
Series 2001 Bonds	1,470,000	-0-	-0-	-0-
Series 2003 Bonds	3,200,000	\$ 970,000	\$ (970,000)	-0-
Series 2011 Refunding Bonds	3,860,000	1,800,000	(1,430,000)	\$ 725,000
	<u>\$ 10,015,000</u>	<u>\$ 2,770,000</u>	<u>\$ (2,400,000)</u>	<u>\$ 725,000</u>

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS:

Principal Amount of the Bonds.....	\$ 2,400,000.00
Net Premium.....	135,559.85
Accrued Interest on the Current Interest Bonds	<u>2,700.00</u>
Total Sources of Funds	2,538,259.85

USES OF FUNDS:

Deposit for Payment of Refunded Bonds	\$ 2,413,834.35
Deposit of Accrued Interest to Debt Service Fund	2,700.00
Issuance Expenses and Underwriter's Discount.....	<u>118,747.62</u>
Total Uses of Funds	2,538,259.85

Payment 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 Paying Agent/Registrar for the Refunded Bonds. The Bond Order provides that, from the proceeds of the sale of the Bonds and other lawfully available funds of the Master District, the Master District will deposit with the Paying Agent/Registrar for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds.

At the time of delivery of the Bonds, Public Finance Partners LLC (the "Verification Agent"), will verify to the Master District, the Paying Agent/Registrar for the Refunded Bonds, Bond Counsel, and Financial Advisor (herein defined) that the monies deposited with the Paying Agent/Registrar for the Refunded Bonds are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

By the deposit of the cash with the Paying Agent/Registrar 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 resolutions or orders of the Master 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 the amounts so deposited, and the amounts so deposited with the Paying Agent/Registrar will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

SUMMARY OF CERTAIN DOCUMENTS

Master District Contract

Each of the Participants has executed the Master District Contract, as amended, with the Master District and obtained the approval of the Master District Contract from the voters of each Participant at elections held separately within the boundaries of each Participant. The Master District Contract provides that all Participants shall pay a pro rata share of debt service on the Master District bonds, including the Bonds, and any future unlimited tax contract revenue bonds, based upon each Participant's assessed valuation as a percentage of the total certified assessed valuation in the Service Area. Each Participant is obligated to pay its pro rata share of the Pledged Contract Payments. Each Participant's pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a Contract Tax or other available means of payment is the sole responsibility of each Participant for the purpose of paying its pro rata share of debt service on the Bonds. The Master District Facilities have been, and are expected to be, constructed with funds provided by the Developing Entities (herein defined) and proceeds from the Bonds and future unlimited tax contract revenue bonds issued by the Master District, which will also be used to reimburse the Principal Landowners (herein defined) and the Developing Entities for such facilities. The Master District Contract also provides for duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; and other provisions.

It is anticipated that the Master District Facilities will be acquired or constructed in stages to meet the needs of a continually expanding population within the Service Area. In the event that the Master District fails to meet its obligations to provide Master District Facilities as required by the Master District Contract, each Participant has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide service to each Participant and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual reasonable, necessary capital costs expended by each Participant for such Master District Facilities. See "INVESTMENT CONSIDERATIONS – Future Debt" and "APPENDIX B" for information concerning each Participant's authorized but unissued unlimited tax bond authority.

All sums payable by each Participant to the Master District pursuant to the Master District Contract are to be paid without set off, counterclaim, abatement, suspension or diminution. If any Participant fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District's Facilities for such Participant in addition to the Master District's other remedies pursuant to the Master District Contract. See "THE BONDS - Source of Payment," and "- Unconditional Obligation to Pay." Under certain conditions, the Master District may extend the Service Area and provide services to other parties who will become Participants and agree to assume their pro rata share of the bonded indebtedness of the Master District Facilities in the same manner as the existing Participants.

Indenture

The Bonds are further secured by the Indenture from the Master District to the Paying Agent/Registrar. Pursuant to the Indenture, the Master District has assigned to the Paying Agent/Registrar all of the Master District's right, title and interest in and to the Pledged Contract Payments under the Master District Contract. Such Pledged Contract Payments, together with all amounts from time to time on deposit in the Debt Service Fund maintained by the Paying Agent/Registrar pursuant to the Indenture, together with any other security from time to time thereafter granted to the Paying Agent/Registrar shall constitute the Pledged Revenues held by the Paying Agent/Registrar under the Indenture.

Pursuant to the Indenture, the Paying Agent/Registrar is to maintain the Debt Service Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Bonds. The Master District has covenanted in the Indenture that it will cause to be charged to each Participant, and collected and deposited into the Debt Service Fund, Pledged Contract Payments in amounts sufficient, together with other Pledged Revenues, to provide for the payment of all interest due on the Bonds on or before each Interest Payment Date and all principal payments on the Bonds on each principal payment date. The Debt Service Fund is to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times.

The Indenture provides that an event of default shall be either of the following occurrences:

- (a) Failure to pay when due the principal of or interest on any Bond; or
- (b) Failure to deposit to the Debt Service Fund money sufficient to pay any principal of or interest on any Bond no later than the date when it becomes due and payable.

Upon the occurrence of an event of default, the Paying Agent/Registrar is required to give notice thereof to the Master District and, subject to the other provisions of the Indenture, may proceed to protect and enforce its rights and the rights of the Registered Owners of the Bonds by suit, action or proceeding at equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, Bond Order, Bonds, or in aid of the execution of any power granted in the Indenture or for the enforcement of any of the legal, equitable or other remedy as the Paying Agent/Registrar, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Paying Agent/Registrar or such Registered Owner, including, without limitation, requesting a writ of mandamus issued by a court of competent jurisdiction compelling the directors and other officers of the Master District and/or the Participants to make such payment (but only from and to the extent of the sources provided in the Indenture) or to observe and perform its other covenants, obligations and agreements in the Indenture. The Indenture provides that the Paying Agent/Registrar may seek the appointment of receivers, may act without possession of the Bonds, may act as attorney in fact for the Registered Owners, that no remedy is exclusive and that the delay or omission in the exercise of any right or remedy shall not constitute a waiver.

The Indenture does not provide for any acceleration of maturity of the Bonds or provide for the foreclosure upon any property or assets of the Master District or the Participants, other than applying the Pledged Revenues as defined in the Indenture in the manner provided in the Indenture.

The Indenture imposes certain limitations on Registered Owners of Bonds to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Paying Agent/Registrar shall have received the written request of the Registered Owners of not less than 25% of all Bonds and any additional bonds from time to time outstanding and secured by the Indenture and the Paying Agent/Registrar shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Bonds and any additional bonds from time to time issued and outstanding shall have the right, by written instrument delivered to the Paying Agent/Registrar, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture.

Without the consent of the Registered Owners, the Master District and the Paying Agent/Registrar may from time to time enter into one or more indentures supplemental to the Indenture, which shall form a part of the Indenture, for any one or more of the following purposes:

- (1) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (2) to grant to or confer upon the Paying Agent/Registrar for the benefit of the Registered Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners of the Bonds or the Paying Agent/Registrar or either of them;
- (3) to subject to the lien of the Indenture additional revenues, properties or collateral;
- (4) to modify, amend or supplement the Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (5) to obtain insurance or a rating for the Bonds;
- (6) to permit any unlimited tax contract revenue bonds to be issued in book entry-only-form ;and
- (7) to permit the assumption of the Master District's obligations under the Indenture by any other entity that may become the legal successor to the Master District;

Provided, however, that no provision in such supplemental indenture shall be inconsistent with the Indenture or shall impair in any manner the rights of the Registered Owners.

Except as provided in the preceding paragraph, any modification, change or amendment of the Indenture may be made only by a supplemental indenture adopted and executed by the Master District and the Paying Agent/Registrar with the consent of the owners of not less than a majority of the aggregate principal amount of the bonds then outstanding. However, without the consent of the holders of each outstanding Bond, no modification, change or amendment to the Indenture shall:

- (1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or the rate of interest thereon, or make the principal thereof or premium, if any, or interest thereon payable in any coin or currency other than that provided in the Indenture, or deprive a Registered Owner of the lien on the revenues pledged under the Indenture; or
- (2) change or amend the Indenture to permit the creation of any lien on the revenues pledged therein equal or prior to the lien thereof, or reduce the aggregate principal amount of Bonds.

The Paying Agent/Registrar may be removed at any time by an instrument or concurrent instruments in writing, signed by the owners of a majority in principal amount of the Bonds then outstanding and delivered to the Paying Agent/Registrar, with notice thereof given to the Master District.

The Paying Agent/Registrar may at any time resign and be discharged from the trusts created by giving written notice to the Master District and by providing written notice to the Registered Owners of its intended resignation at least ninety (90) days in advance thereof. Such notice shall specify the date on which such resignation shall take effect and shall be sent by first-class mail, postage prepaid to each Registered Owner. Resignation by the Paying Agent/Registrar shall not take effect unless and until a successor to such Paying Agent/Registrar shall have been appointed.

In case the Paying Agent/Registrar shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting, or in case the Paying Agent/Registrar shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Registered Owners of a majority in principal amount of the Bonds then outstanding, by an instrument or concurrent instruments in writing, signed by such owners or their duly authorized representatives and delivered to the Paying Agent/Registrar, with notice thereof given to the Master District; provided however, that in any of the events above mentioned, the Master District may nevertheless appoint a temporary Paying Agent/Registrar to fill such vacancy until a successor shall be appointed by the Registered Owners in the manner above provided, and any such temporary Paying Agent/Registrar so appointed by the Master District shall immediately and without further act be automatically succeeded by the successor to the Paying Agent/Registrar appointed by the Registered Owners. The Master District shall provide written notice to the Registered Owners of the appointment of any successor Paying Agent/Registrar, whether temporary or permanent, in the manner provided in the Indenture for providing notice of the resignation of the Paying Agent/Registrar. Any successor Paying Agent/Registrar or temporary Paying Agent/Registrar shall be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000. In the event that no appointment of a successor Paying Agent/Registrar is made by the Registered Owners or by the Master District pursuant to the Indenture at the time a vacancy in the office of the Paying Agent/Registrar shall have occurred, the Registered Owner of any Bond or the retiring Paying Agent/Registrar may apply to any court of competent jurisdiction for the appointment of a successor Paying Agent/Registrar, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Paying Agent/Registrar.

Agreements Concerning Creation and Operation of Paseo De La Resaca Municipal Utility District Nos. 1, 2 and 3

Under then current state law, the City was required to give its consent to the creation of the Master District. The vehicle for this consent was an "Agreement Concerning Creation and Operation of Paseo De La Resaca Municipal Utility District No. 3 of Cameron County," as amended, ("Creation Agreement") entered into with the City, the PUB and the Principal Landowners. The Creation Agreement was assigned by the Principal Landowners (herein defined) to the Master District upon its creation. The following is a summary of certain

terms and conditions of the Creation Agreement, but is not a complete description and is qualified by reference to the Creation Agreement, copies of which are available from the Master District. By passage of a Resolution adopted by the City Commission of the City on September 10, 1996, the City granted its consent to the creation of the Master District.

The Creation Agreement provides that the Master District shall construct and finance only those portions of a water distribution system and wastewater collection system (collectively, "Utility Lines") reflected on exhibits attached to the Creation Agreement and the storm water drainage facilities to serve land located within the Master District and the Participants. The Creation Agreement specifically prohibits the Master District from financing parks or recreation improvements, fire protection equipment facilities, roads or streets, street lighting, water plants or sewage treatment plants, utility sites or the impact fees charged by the PUB for water supply and wastewater treatment capacity.

Upon completion of a portion of the Utility Lines, the Master District is required to convey such facilities to the City and thereafter the PUB is responsible for the operation and maintenance of the Utility Lines. Thereafter, the PUB provides retail water and sewer service to customers located within the Service Area under the same terms and conditions provided to other similarly situated customers. All revenues that the PUB receives from its water and wastewater customers belong to the PUB. In the Creation Agreement, the PUB has contracted to provide water supply and wastewater treatment service for the full development of the Master District.

In the Creation Agreement, the Master District agrees that it will not annex land without the consent of the City. Further, no land may be annexed into the Master District unless it is being deannexed from MUD 1 or MUD 2. The Master District further agrees that it will not deannex land from its boundaries unless such land is annexed into MUD 1 or MUD 2.

The City agrees that it shall not dissolve the Master District until the earlier of 15 years from the date of the Creation Agreement (September 13, 1996), which date has passed, or until 90% of the dollar value of those portions of the Utility Lines located within the Master District have been constructed. See "THE BONDS - Abolishment and Consolidation."

The Creation Agreement, as amended, prohibits the District and the Participants from purchasing, owning or operating any recreational facilities.

The City adopted identical resolutions consenting to the creation of MUD 1 and 2 at its September 10, 1996 meeting. Likewise, the City entered into identical creation agreements, as amended, regarding MUD 1 and MUD 2, which agreements have been assumed by such districts.

COMPOSITE FINANCIAL STATEMENT

Assessed Valuation of the Participants

Participants	2019 Assessed Valuation (a)	% of Total
Paseo De La Resaca MUD No. 1	\$ 92,732,839	25.56%
Paseo De La Resaca MUD No. 2	\$ 153,124,806	42.20%
Paseo De La Resaca MUD No. 3	<u>\$ 116,969,254</u>	<u>32.24%</u>
Total	<u>\$ 362,826,899</u>	<u>100.00%</u>

(a) As certified by the Appraisal District (herein defined). See "TAXING PROCEDURES."

Unlimited Tax Contract Revenue Bonds

The Remaining Outstanding Bonds	\$ 370,000
The Bonds	<u>2,400,000</u>
Total Direct Debt (a).....	<u>\$ 2,770,000</u>
Ratio of Direct Debt to 2019 Assessed Valuation of Participants	0.76%
Debt Service Fund (as of June 19, 2019)	920,840

(a) Excludes the Refunded Bonds and debt issued by Participants and secured by a direct pledge of ad valorem taxes. See APPENDIX B.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the Service Area and the estimated percentages and amounts of such indebtedness attributable to property within the Service Area. This information is based upon data secured from the individual jurisdictions and/or the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions, or other overlapping jurisdictions that do not have debt currently outstanding, for operation and maintenance or for other purposes.

Taxing Jurisdiction	Outstanding Debt June 30, 2019	Overlapping	
		Percent	Amount
Cameron County	\$ 159,505,000	1.77%	\$ 2,816,814
City of Brownsville	155,525,000	4.94%	7,684,610
Brownsville ISD	153,850,000	5.62%	8,642,522
Brownsville Navigation District	2,105,000	3.76%	79,056
Texas Southmost Junior College District	38,900,000	2.55%	992,093
Paseo De La Resaca MUD No. 1 (a)	1,220,000	100.00%	1,220,000
Paseo De La Resaca MUD No. 2 (a)	1,875,000	100.00%	1,875,000
Paseo De La Resaca MUD No. 3 (a)	2,330,000	100.00%	<u>2,330,000</u>
Total Estimated Overlapping Debt.....			<u>\$ 25,640,095</u>
The Master District (b)			<u>\$ 2,770,000</u>
Total Direct and Estimated Overlapping Debt (b).....			<u>\$ 28,410,095</u>

(a) Represents debt issued by Participants and secured by a direct pledge of ad valorem taxes.

(b) Includes the Bonds, less the Refunded Bonds. See APPENDIX B.

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Debt Ratios

	Percentage of 2019 Assessed Valuation
Direct Debt (a)	0.76 %
Direct and Estimated Overlapping Debt (a)	7.83 %

(a) Includes the Bonds, less the Refunded Bonds.

Debt Service Requirements

The following schedule sets forth the debt service requirements of the Remaining Outstanding Bonds and the estimated principal and interest requirements of the Bonds.

Calendar Year	Outstanding Debt Service	Less: Refunded Debt Service	Plus: The Bonds		Total Debt Service
			Principal	Interest	
2019	\$ 422,284	\$ 54,134	–	–	\$ 368,150
2020	492,144	108,269	\$ 25,000	\$ 60,688	469,563
2021	493,269	493,269	335,000	130,750	465,750
2022	502,869	502,869	425,000	60,750	485,750
2023	505,444	505,444	445,000	48,000	493,000
2024	505,544	505,544	455,000	34,800	489,800
2025	384,438	384,438	350,000	21,300	371,300
2026	<u>392,813</u>	<u>392,813</u>	<u>365,000</u>	<u>10,950</u>	<u>375,950</u>
Total	\$ 3,698,803	\$ 2,946,778	\$ 2,400,000	\$ 347,504	\$ 3,499,529

Average Annual Debt Service Requirement (2020–2026) \$ 439,908
Maximum Annual Debt Service Requirement (2023) \$ 493,000

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TAXING PROCEDURES

Authority to Levy Taxes

Each Participant is authorized to levy a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within its boundaries in sufficient amount to pay the principal of and interest on any bonds issued by it, its pro rata share of interest on the Bonds, and any additional bonds payable from taxes which the Master District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. Voters within each Participant have also authorized the levy of a maintenance tax not to exceed \$0.75 per \$100 valuation.

Each Participant agrees in the Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS - Source of Payment." Under Texas law, each Participant may also levy and collect annual ad valorem taxes for the operation and maintenance of each Participant, to support the debt burden of each Participant, and for the payment of certain contractual obligations. MUD 1 levied a maintenance and operation tax of \$0.110 per \$100 of assessed value in 2019. MUD 2 levied a maintenance and operation tax of \$0.160 per \$100 of assessed value in 2019. The District levied a maintenance and operation tax of \$0.070 per \$100 of assessed value in 2019. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-Wide Appraisal Districts

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 herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Cameron Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within the County, including the District. Such appraisal values will be subject to review and change by the Cameron County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board for the Appraisal District, will be used by each Participant in establishing its tax rolls and tax rate.

The Property Tax Code requires the Appraisal District, by October 1 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before October 1, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The Appraisal Review Board has the ultimate responsibility for determining the value of all taxable property within each Participant; however, any property owner who has timely filed notice with the Appraisal Review Board may appeal a final determination by the Appraisal Review Board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. 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. In addition, taxing units, such as each Participant, are entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although each Participant has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, each Participant does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The Appraisal District is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the Appraisal District. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised

values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

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

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

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

1 of the applicable tax year. None of the Participants granted a homestead exemption for the 2019 tax year. See "TAX DATA – Analysis of Tax Base."

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2019 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 2019 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law.

Tax Abatement

The County may designate all or part of the area within the Service Area as a reinvestment zone. Thereafter, either Brownsville School District (depending on the location of the reinvestment zone) or any or all of the Participants, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. As of September 1, 1999, each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. None of the area within each of the Participants has been designated as a reinvestment zone to date, and each of the Participants has not approved any such tax abatement agreements.

Valuation of Property for Taxation

Generally, property within each Participant 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 each Participant in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property

inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous three 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 reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. Each Participant, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within each Participant or an estimate of any new property or improvements within each Participant. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within each Participant, it cannot be used for establishing a tax rate within each Participant until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

On August 25, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast, severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "INVESTMENT CONSIDERATIONS – Hurricane Harvey." When requested by a local taxing unit, such as each Participant, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are prorated for the year the disaster occurred. The taxing units assess taxes prior to the date the disaster occurred based upon market values as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. No Participant presently has a plan to request a reappraisal due to Hurricane Harvey.

Subject to the approval of an amendment to the Texas Constitution at an election to be held November 5, 2019, individuals in an area declared to be a disaster area by the Texas Governor may obtain a temporary tax exemption for a portion of the appraised value of qualified property. Such exemption would expire on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including each Participant, may appeal orders of the Appraisal Review Board by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal 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 each Participant 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 values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

Each Participant 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 of each Participant, after the legally required notice has been given to owners of property within each Participant, based upon: a) the valuation of property within each Participant as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year

following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by each Participant and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of each Participant, may be rejected. Each Participant's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of each Participant have the right to petition for a rollback of each Participant'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, 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. 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 Property 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 of each Participant on an annual basis, beginning with the 2020 tax year. The Participants cannot give any assurances as to what its classification will be at any point in time or whether the Participants' future tax rates will result in a total tax rate that will reclassify the Participants into a new classification and new election calculation.

Participants' Rights in the Event of Tax Delinquencies

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

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

TAX DATA

General

All taxable property within the Service Area is subject to the assessment, levy and collection by the applicable Participant of a continuing direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay such Participant's pro rata share of principal of and interest on the Bonds, and any future tax-supported contract revenue bonds which may be issued from time to time as may be authorized. Taxes are levied by each Participant each year against such Participant's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year.

Contract Tax

The Master District, in its capacity as the Master District, has the statutory authority to issue unlimited tax contract revenue bonds to purchase, construct, and improve Master District Facilities necessary to provide water, wastewater and drainage facilities, to the Participants. Each Participant's pro rata share of the debt service requirements on the Bonds, and any additional unlimited tax contract revenue bonds issued in the future, shall be determined by dividing each Participant's certified appraised value by the total certified appraised value within the Service Area. The Master District Contract obligates each Participant to pay its pro rata share of debt service requirements on the Bonds from the proceeds of the Contract Tax. The debt service requirement shall include principal, interest and redemption requirements on the Bonds, Paying Agent/Registrar fees, and all amounts necessary to establish and maintain funds established under the Bond Order or Indenture. The Contract Tax to be assessed by MUD 1, MUD 2 and the District for the 2019 tax year to pay debt service on the Remaining Outstanding Bonds and the Bonds is \$0.135 per \$100 of total taxable assessed valuation, \$0.130 per \$100 of total taxable assessed valuation and \$0.130 per \$100 of total taxable assessed valuation, respectively. See "INVESTMENT CONSIDERATIONS – Overlapping and Combined Tax Rates," and "APPENDIX B."

Debt Service Tax

Each Participant, including the Master District, has the statutory authority to issue unlimited tax bonds for the purpose of providing water distribution, wastewater collection and storm drainage facilities to the land within its boundaries. Such bonds, if issued, will be served by a continuing, annual ad valorem tax adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to the Contract Tax. See "APPENDIX B" for information related to each Participant's historical tax data and authorized but unissued unlimited tax bonds.

Maintenance Tax

The Board of Directors of each Participant has the statutory authority to levy and collect an annual ad valorem tax for maintenance purposes, including, but not limited to, funds for planning, constructing, maintaining, repairing and operating all necessary land, plants, works, facilities, improvements, appliances and equipment, if such maintenance tax is authorized by a vote of the Participant's electors. Such tax would be in addition to the Contract Tax and taxes levied for paying principal of and interest on any tax bonds which may be issued in the future by the Participant. At an election held on August 7, 1997, voters within each Participant authorized a maintenance tax not to exceed \$0.75/\$100 assessed valuation. For the 2019 tax year MUD 1 levied a maintenance and operation tax of \$0.110 per \$100 of assessed value; MUD 2 levied maintenance and operation tax of \$0.160 per \$100 of assessed value; and the District levied a maintenance and operation tax of \$0.070 per \$100 of assessed value.

Additional Penalties

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

Historical Values and Tax Collection History

The following statement of tax collection sets forth, in condensed form, the historical aggregate assessed valuation and tax collections of the Participants. Such summary has been prepared for inclusion herein based upon information obtained from Participant records. Reference is made to such records, including the Participant's annual audited financial statements, for more complete information:

Tax Year	Certified Assessed Valuation	Contract Tax Rate Per \$100 (a)	Adjusted Levy	Percentage of Collections as of 5/31/2019
2014	\$ 278,643,714	\$ 0.4200	\$ 1,170,303	99.91 %
2015	291,402,449	0.4200	1,223,890	99.91
2016	308,930,589	0.4200	1,297,508	99.76
2017	319,733,076	0.4000	1,278,932	99.08
2018	330,325,118	Varies	1,222,012	94.69
2019	362,826,899	Varies	1,306,177	(b)

(a) See "Tax Rate Distribution" below

(b) In process of collections.

Analysis of Tax Base

The following represents the Service Area's total assessed value in the 2015–2019 tax years by type of property:

Type of Property	Paseo De La Resaca MUD No. 1 2019 Assessed Valuation	Paseo De La Resaca MUD No. 2 2019 Assessed Valuation	Paseo De La Resaca MUD No. 3 2019 Assessed Valuation	Service Area 2019 Assessed Valuation
Land	\$ 21,847,398	\$ 44,037,796	\$ 23,633,453	\$ 89,518,647
Improvements	76,118,591	113,337,765	95,716,677	285,173,033
Personal Property	4,653,864	12,142,852	329,495	17,126,211
Less: Exemptions	(9,887,014)	(16,393,607)	(2,710,371)	(28,990,992)
Total	\$ 92,732,839	\$ 153,124,806	\$ 116,969,254	\$ 362,826,899

Type of Property	Paseo De La Resaca MUD No. 1 2018 Assessed Valuation	Paseo De La Resaca MUD No. 2 2018 Assessed Valuation	Paseo De La Resaca MUD No. 3 2018 Assessed Valuation	Service Area 2018 Assessed Valuation
Land	\$ 21,682,003	\$ 41,476,104	\$ 23,650,253	\$ 86,808,360
Improvements	58,771,059	99,637,333	94,150,359	252,558,751
Personal Property	4,831,767	14,466,539	178,981	19,477,287
Less: Exemptions	(9,302,222)	(15,470,589)	(3,746,469)	(28,519,280)
Total	\$ 75,982,607	\$ 140,109,387	\$ 114,233,124	\$ 330,325,118

Type of Property	Paseo De La Resaca MUD No. 1 2017 Assessed Valuation	Paseo De La Resaca MUD No. 2 2017 Assessed Valuation	Paseo De La Resaca MUD No. 3 2017 Assessed Valuation	Service Area 2017 Assessed Valuation
Land	\$ 21,692,389	\$ 40,786,465	\$ 23,725,023	\$ 86,203,877
Improvements	56,637,537	94,665,932	89,646,892	240,950,361
Personal Property	5,170,581	14,236,214	170,521	19,577,316
Less: Exemptions	(9,189,038)	(13,880,998)	(3,928,442)	(26,998,478)
Total	\$ 74,311,469	\$ 135,807,613	\$ 109,613,994	\$ 319,733,076

	Paseo De La Resaca MUD No. 1	Paseo De La Resaca MUD No. 2	Paseo De La Resaca MUD No. 3	Service Area
Type of Property	2016 Assessed Valuation	2016 Assessed Valuation	2016 Assessed Valuation	2016 Assessed Valuation
Land	\$ 21,345,417	\$ 40,868,788	\$ 23,597,533	\$ 85,811,738
Improvements	56,234,498	92,076,851	82,525,970	230,837,319
Personal Property	4,033,491	12,720,702	81,102	16,835,295
Less: Exemptions	(9,193,337)	(13,359,376)	(2,001,050)	(24,553,763)
Total	\$ 72,420,069	\$ 132,306,965	\$ 104,203,555	\$ 308,930,589

	Paseo De La Resaca MUD No. 1	Paseo De La Resaca MUD No. 2	Paseo De La Resaca MUD No. 3	Service Area
Type of Property	2015 Assessed Valuation	2015 Assessed Valuation	2015 Assessed Valuation	2015 Assessed Valuation
Land	\$ 21,345,514	\$ 38,812,041	\$ 23,591,533	\$ 83,749,088
Improvements	56,091,183	88,045,551	81,438,186	225,574,920
Personal Property	4,374,001	3,560,904	114,122	8,049,027
Less: Exemptions	(9,199,378)	(13,753,393)	(3,017,815)	(25,970,586)
Total	\$ 72,611,320	\$ 116,665,103	\$ 102,126,026	\$ 291,402,449

Principal Taxpayers

The following are the principal taxpayers within the Service Area, type of property, and their assessed values as of January 1, 2018:

Taxpayer	Types of Property	Taxable Value 2018 Tax Roll
Wal-Mart Stores Texas LP	Land & Improvements	\$ 14,386,688
Realty Income Properties 8 LLC	Land & Improvements	5,841,528
Brownsville TX FM 802 Big 22 LLC	Land & Improvements	5,254,896
TPI Paseo Real LLC	Land & Improvements	3,891,987
Valley Resaca Palms	Land & Improvements	2,903,995
Shree Maa Krupa Properties Ltd	Land & Improvements	2,900,000
CTR Partnership LP	Land & Improvements	2,595,992
Winland Las Campanas LLC	Land & Improvements	2,063,701
BES Merit Properties LLC	Land & Improvements	1,668,092
International American Maintenance Inc.	Land & Improvements	1,334,285
Total.....		\$42,841,164
Percent of 2018 Assessed Valuation		12.97 %

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet certain debt service requirements on the Remaining Outstanding Bonds and the Bonds if no growth in the Service Area occurs beyond the 2019 taxable assessed valuation (\$362,826,899). The calculations assume collection of 95% of taxes levied, the sale of the Bonds, and the sale of no additional bonds.

Average Annual Debt Service Requirement (2020–2026)	\$439,908
Combined Contract Tax Rate of \$0.13 on the 2019 Taxable Assessed Valuation produces	\$448,091
Maximum Annual Debt Service Requirement (2023).....	\$493,000
Combined Contract Tax Rate of \$0.15 on the 2019 Taxable Assessed Valuation produces	\$517,028

Estimated Overlapping Taxes

Property within the Service Area is subject to taxation by several taxing authorities in addition to the Participants. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the Participants is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of each Participant and of such other jurisdictions (see "COMPOSITE

FINANCIAL STATEMENT – Estimated Overlapping Debt”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2018 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

Taxing Jurisdiction	Cameron County 2018 Tax Rates
Each Participant (a)	\$ 0.395000
Cameron County	0.416893
Brownsville Independent School District	1.265000
City of Brownsville	0.700613
Texas Southernmost Junior College District	0.162407
Brownsville Navigation District	<u>0.035920</u>
Total	\$ 2.975833

- (a) See “APPENDIX B – Tax Rate Distribution” for the highest Participant’s tax rate distribution. MUD 1 levied \$0.395, MUD 2 levied \$0.34 and the District levied \$0.39 per \$100 of assessed valuation for their 2019 tax rate. The other entities are in the process of levying their 2019 tax rate.

The Service Area lies within a Public Improvement District (the “PID”), whose boundaries coincide with the Service Area. The PID was established to provide funds for maintenance and operations of the park areas within the Service Area. The PID’s annual assessment is equal to \$0.20 per square foot for each home and \$0.20 per square foot for each commercial building in the PID.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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. The District has adopted an Investment Policy (the “Investment Policy”) as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). The District’s goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Investment Policy. The Investment Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation (“FDIC”) and secured by collateral authorized by the Act, and in TexPool and Texas Class, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service.

THE MASTER DISTRICT

General

The Master District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The Master District was created by order of the Texas Natural Resource Conservation Commission, predecessor to the TCEQ, on June 25, 1997. The Master District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The Master District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The Master District is subject to the continuing supervision of the TCEQ and is located exclusively within the boundaries of the City.

Description

The Master District is an approximately 229.874 acre district, within the approximately 1,000 acre Paseo De La Resaca master-planned community. The Master District is located in the northern part of the City, in the County, approximately 1.2 miles east of the intersection of U.S. Highway 77/83 and Farm-to-Market Road 802. Access to the Paseo De La Resaca development is provided by Farm-to-Market Road 802, Farm-to-Market Road 1847 and Coffee Port Road.

City of Brownsville

The City is the largest city in the lower Rio Grande Valley, located approximately 25 miles inland from the Gulf of Mexico and adjacent to Mexico. The City's 2010 census population is 175,023, as compared with the 2000 census population of 142,931.

With national trends driving industrial growth towards the US/Mexican border, Brownsville's location has proven to be a major asset to industry and manufacturers.

Management of the District

The Master District is governed by a board (the "Board") of five directors which has control over all affairs of the Master District. All of the present members of the Board either reside within the Master District or own property within the Master District, subject to a note and deed of trust. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Joe Baldwin	President	2022
Neel Fulghum	Vice President	2022
Louise Chosy	Secretary	2020
Dr. Robert Maza	Assistant Secretary	2020
Jon Waters	Assistant Secretary	2020

Management and Contract Services

The District does not have any full-time employees; however, the District contracts for tax collecting, bookkeeping, facilities repair and maintenance, legal, financial advisory, auditing and other professional services as follows:

Tax Assessor/Collector: Land and improvements within the District are being appraised by the Appraisal District. The Tax Assessor/Collector for the Master District is Utility Tax Service, LLC. The Tax

Assessor/Collector applies the District's tax levy to tax rolls prepared by the Appraisal District and bills and collects such levy.

Bookkeeper: The Master District contracts with L&S District Services, LLC for bookkeeping services.

Utility System Operator: The City owns and the PUB (owned by the City) operates all of the water and sewer facilities serving the Service Area.

Engineer: The consulting engineer retained by the Master District to provide engineering services for the design and construction of the Master District Facilities is Mejia & Rose, Inc., Brownsville, Texas (the "Master District Engineer"). The Master District also engages Murfee Engineering Co., Inc. to advise it regarding compliance with TCEQ rules and processing of bond applications.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audited financial statements are filed with the TCEQ. The District's audited financial statements for the fiscal year ending July 31, 2018, have been prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX C" for a copy of the Master District's July 31, 2018, audited financial statements.

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

Legal Counsel: The Master District has engaged Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale of and delivery of the Bonds. Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, also serves as the Master District's general counsel.

Special Consultant Related to Issuance of the Bonds

Verification Agent: At the time of delivery of the Bonds, the Verification Agent will verify to the District, Bond Counsel, Escrow Agent, and the initial purchaser of the Bonds (the "Underwriter") certain matters related to the issuance of the Bonds and the refunding of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

The Participants

The Participants were each created by separate orders of the Texas Natural Resource Conservation Commission, predecessor to the TCEQ on June 25, 1997. The Participants are vested with all of the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation, those conferred by Chapters 49 and 54, Texas Water Code, as amended. The Participants are empowered to contract with the Master District for the joint construction, financing, ownership, and operation of any works, improvements, facilities, plants, equipment, and appliances necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The Participants are subject to the continuing supervision of the TCEQ and are located exclusively within the boundaries of the City.

The Service Area

Pursuant to the Master District Contract, the Master District is obligated to provide certain regional water transmission lines, wastewater conveyance lines and stormwater drainage facilities to serve the land within the Participants, which districts serve the master-planned community of Paseo De La Resaca.

The Service Area contains approximately 888.114 acres, including a total of approximately 229.874 acres in the Master District. The Service Area is located approximately 1.2 miles east of the intersection of U.S. Highway 77/83 and F.M. 802 in the vicinity of the intersection of FM 1847 (Paredes Line Road) and FM 802.

The Service Area is located entirely within the city limits of the City. The Service Area lies within the Brownsville Independent School District.

DEVELOPMENT WITHIN THE SERVICE AREA

The Role of a Developer

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

The Developer / Principal Landowners

The development of land within the Service Area has been undertaken principally by several entities (the "Developing Entities") that, in varying degrees of ownership, have been created by or on behalf of four principal landowners (Verde Montana Partners, Ltd.; Bene Facimus, Ltd.; John Reale, Successor Trustee of the Hubert R. Hudson Testamentary Trust for Caroline Hudson Lynch Firestone; and Chris C. Hudson, Trustee of the Hubert R. Hudson Testamentary Trust for William H. Hudson), which landowners have also registered to do business as Hudson Farm Partnership (such owners, together with Hudson Farm Partnership, collectively, the "Principal Landowners"). The Principal Landowners are controlled and owned by family members and heirs of Hubert R. Hudson, Sr., the original owner of the approximately 1,000 acres constituting the master planned community of Paseo De La Resaca, including all of the approximately 888.114 acres in the Service Area. Development has been managed by William P. C. Hudson ("Hudson") and/or Domus Development, L.C., a Texas limited company ("Domus"). Domus is controlled by Hudson. The Developing Entities, Domus, and Hudson are collectively referred to as the "Developer."

Generally, each of the Developing Entities has been formed by agreement between some or all of the Principal Landowners for the purpose of developing particular portions of the land within the Service Area. In connection with the formation of a Developing Entity, some or all of the participating Principal Landowners have conveyed the land to be developed to the Developing Entity, which in turn is managed by Hudson and/or by Domus. Generally, the assets of the Developing Entities consist of, and are limited to, the land conveyed to such Developing Entity by the participating Principal Landowners.

The District is within Paseo De La Resaca, a 1,000 acre Master Planned Community designed by Richard Browne (planner for The Woodlands, Texas and Columbia, Maryland), which began development in 1995. The development program is approximately 97% complete with about 1,000,000 square feet of commercial and public buildings, 1,000 apartment units (700 complete and rent-stabilized with an average occupancy of 95%, and 300 under construction with no occupancy) in four (4) complexes, and only 66 vacant lots remaining out of 1,867 home sites. The mix of housing was approximately 60% entry-level, 30% move-up, and 10% specialty (garden home, town home, etc.) or top of market. Only approximately 30 acres are yet undeveloped in Paseo De La Resaca.

Paseo De La Resaca boasts a 120-acre linear park with trails connecting the two elementary schools to all 21 neighborhoods and businesses. Amenities within the Master District include an Olympic Swimming Center (Brownsville Independent School District), a 36,000 square-foot Event Center (the City), a 16-court USTA Recognized Tennis Center (Brownsville Tennis Association), and connects to the Historic Battlefield Hike &

Bike Trail, which connects Paseo De La Resaca with the historic downtown of the City and Palo Alto National Battlefield Monument, the only Mexican-American War battlefield in the United States. The remaining land within the Service Area is comprised of approximately 125 undevelopable acres and approximately 30 undeveloped, but developable acres.

Homebuilders Active in the Service Area

Homebuilders active in the Service Area include Exquisite Homes, Chula Vista Homes, DTRAM Builders, Garcia Builders, Zagar Homes and JV Builders LLC. Homes constructed within the Service Area range in price from approximately \$150,000 to over \$500,000 and range in size from approximately 2,000 square feet to over 5,000 square feet.

Financing of Development

Generally, the development of land within the Service Area has been financed by the Developing Entities using funds obtained pursuant to loans from local banks. Such loans have been secured by liens against land in the Service Area owned by the Principal Landowners. Generally, such loans have been personally guaranteed by Hudson. In addition, Developing Entities have been capitalized through the conveyance of land located within the Service Area to a Developing Entity in exchange for either an ownership interest in the Developing Entity or a secured note obligating the Developing Entity to pay an agreed purchase price for the land conveyed.

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MASTER DISTRICT FACILITIES / UTILITY SYSTEM

Regulation

According to the Master District Engineer, the water distribution, wastewater collection lines and storm water drainage facilities constructed by the Master District, including the Utility Lines (the "System"), have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, and the County. According to the Master District Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ. As such facilities are completed, they have been, and will be, conveyed to the City for operation by the PUB, which is responsible for the operation and maintenance of all water, wastewater and drainage facilities serving the Service Area.

Water Supply and Wastewater Treatment

Pursuant to agreements entered into between the City and each of the Participants, the City has agreed to provide water supply and wastewater treatment service for full development of the Service Area. The City's water supply lines and wastewater trunklines are adjacent to the Service Area and sized to accommodate full development of the Service Area. Water supply to the Participants is provided by one of two equally rated 20 million gallons per day ("mgd") water treatment plants with a total of 4.84 million gallons ("mg") of ground storage and 6.24 mg of elevated storage. The total water treatment plant capacity is 40 mgd, with current peak demand indicated to be 30 mgd. The water supply appears adequate for the current and contractual commitments of the PUB.

The Master District has contracted with each of the Participants to construct certain trunk water lines and wastewater lines within the Service Area to the City's lines. Upon completion of such water lines and wastewater lines, they are conveyed to the City. Thereafter, the City is responsible for operating and maintaining such lines and providing retail water and wastewater service to all customers located within the Service Area. In addition, the PUB is entitled to all revenues from such customers. Wastewater treatment is provided from the Robindale Wastewater Treatment Plant ("the "RWWTP") with a current capacity of 14.5 mgd. The wastewater treatment capacity appears adequate for the current and contractual commitments of the PUB. See "SUMMARY OF CERTAIN DOCUMENTS."

Storm Drainage

Storm water runoff within the Service Area is directed through pipes, culverts and extensions to drainage ditches (Resaca Calmada) which will also act as detention. Approximately 4.5 miles of the Resaca Calmada has been excavated as drainage improvements. The District area drains to the north through the Resaca Calmada to the Main Ditch No. 1 maintained by Cameron County Drainage District No. 1.

Flood Plain

According to the Master District Engineer, the flood hazard boundary map currently in effect, published by the Federal Emergency Management Agency (dated February 16, 2018), which covers the land located in the Service Area, indicates that approximately 165.6 acres of land located in the Service Area are located within the 100-year flood plain.

The Master District Engineer prepared and submitted data to the Federal Emergency Management Agency ("FEMA"), detailing a plan for excavation and fill for the purpose of a flood plan map revision. FEMA issued a Conditional Letter of Map Revision based on Fill (CLOMR-F) on October 21, 1994 and has subsequently affirmed by issuance of a sequence of actual Letters of Map Revision based on Fill (LOMR-F) totaling 301.211 acres, which have decreased the amount of land within Special Flood Hazard Area (100-year flood plain) to approximately 165.6 acres of land within the Service Area. The latest of these map revisions was effective as of April 2, 2003

Operating History

The following is a summary of the District's operating fund for the last five years. The District does not own or operate a water and sewer system and therefore does not receive revenues or make expenditures for water

and sewer system operations. The figures for the fiscal years ended July 31, 2015, through July 31, 2018, were obtained from the District's audited financial statements, reference to which is hereby made, and for the fiscal year ended July 31, 2018, such audited financial statements are attached hereto as "APPENDIX C." The figures for the period ended July 31, 2019, were obtained from the District's Bookkeeper and are unaudited. The District is required by statute to have a certified public accountant audit its financial statements annually, which audited financial statements are required to be filed with the TCEQ.

	2019 (a)	2018	2017	2016	2015
REVENUES					
Maintenance Tax Revenues	\$ 79,841	\$ 81,761	\$ 51,285	\$ 25,667	\$ 20,194
Miscellaneous Revenues	698	519	-	-	-
TOTAL REVENUES	\$ 80,539	\$ 82,280	\$ 51,285	\$ 25,667	\$ 20,194
EXPENDITURES					
Professional Fees	\$ 36,4475	\$ 27,887	\$ 20,497	\$ 8,000	\$ 8,000
Purchased and Contracted Services	6,294	6,297	-	-	-
Other	2,105	4,410	3,892	3,985	5,922
TOTAL EXPENDITURES	\$ 44,871	\$ 38,594	\$ 24,389	\$ 11,985	\$ 13,922
Excess Revenues (Expenditures)	\$ 35,668	\$ 43,686	\$ 26,896	\$ 13,682	\$ 6,272
Balance, Beginning of Year	\$ 97,146	\$ 53,460	\$ 26,564	\$ 12,882	\$ 6,610
Balance, End of Year	\$ 132,814	\$ 97,146	\$ 53,460	\$ 26,564	\$ 12,882

(a) Unaudited. As of July 31, 2019.

INVESTMENT CONSIDERATIONS

General

The Bonds are limited obligations of the Master District and are not obligations of the State of Texas; the County; the City; or any entity other than the Master District. The Bonds are payable solely from and to the extent of the Pledged Contract Payments. The obligations of the Participants to make Pledged Contract Payments are several, not joint, obligations pro-rated among the Participants based upon the proportion of the assessed valuation of property within their respective boundaries to the total assessed valuation of the Service Area. No Participant is obligated to pay the Pledged Contract Payments allocated to any other Participant. The security for payment of the principal of and interest on the Bonds, therefore, depends on the ability of each Participant to collect annual ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries sufficient to pay Pledged Contract Payments. Taxes collected by each Participant are allocated between Pledged Contract Payments which are the source of payment of the Bonds and other ad valorem taxes levied by such Participant without priority of taxes levied for one purpose over taxes levied for any other purpose. The collection by each Participant of delinquent taxes owed to it and the enforcement by Registered Owners of the Participant's obligation to collect sufficient taxes, if required, may be a costly and lengthy process. Furthermore, the Master District and Participants cannot and do not make any representations that continued development of taxable property within the Service Area will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property, if such property is foreclosed upon by a Participant for non-payment of taxes. The Master District and Participants make no representations that over the life of the Bonds the property within the Service Area will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of property in the Service Area is directly related to the economics of the commercial and residential industry, not only due to general economic conditions, but also due to the particular factors discussed below. See "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source of Payment."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the Service Area is directly related to the vitality of the residential and commercial industry in the metropolitan area surrounding the City. New residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of residential construction activity would restrict the growth of property values in the Service Area. The District is within Paseo De La Resaca, a 1,000 acre Master Planned Community designed by Richard Browne (planner for The Woodlands, Texas and Columbia, Maryland), which began development in 1995. The development program is approximately 97% complete with about 1,000,000 square feet of commercial and public buildings, 1,000 apartment units (700 complete and rent-stabilized with an average occupancy of 95%, and 300 under construction with no occupancy) in four (4) complexes, and only 66 vacant lots remaining out of 1,867 home sites. The mix of housing was approximately 60% entry-level, 30% move-up, and 10% specialty (garden home, town home, etc.) or top of market. Only approximately 30 acres are yet undeveloped in Paseo De La Resaca.

Paseo De La Resaca boasts a 120-acre linear park with trails connecting the two elementary schools to all 21 neighborhoods and businesses. Amenities within the Master District include an Olympic Swimming Center (Brownsville Independent School District), a 36,000 square-foot Event Center (City of Brownsville), a 16-court USTA Recognized Tennis Center (Brownsville Tennis Association), and connects to the Historic Battlefield Hike & Bike Trail, which connects Paseo De La Resaca with the historic downtown of the City and the Palo Alto National Battlefield Monument, the only Mexican-American War battlefield in the United States. The Master District and Participants cannot predict the pace or magnitude of any future development in the Service Area. See "DEVELOPMENT WITHIN THE SERVICE AREA."

Principal Taxpayers' Obligations to the District: The top ten principal taxpayers constitute approximately 12.97% of the 2018 tax roll. See "TAX DATA - Principal Taxpayers." Each of such principal taxpayers' ability to make full and timely payments of taxes levied against its property by the applicable Participant and similar taxing authorities will directly affect the Master District's ability to meet its debt service obligations. There is no commitment by or legal requirement of any of the principal taxpayers or any other party in the Service Area to proceed at any particular rate or according to any specified plan with the development of land in the Service Area or the construction of taxable improvements. There is no restriction on any landowner's or taxpayer's right to sell its land or other property. Therefore, the Master District can make no representation about the likelihood of future development, if any, or the rate of residential construction activity in the Service Area.

Developer Under No Obligation to the District: The Developer has informed the Master District of its current plans to continue to develop land in the Master District for residential purposes and commercial purposes. The Developer has no current plans to sell its land within the Master District to other developers. However, the Developer is not obligated to implement such plan on any particular schedule or continue to implement such plan at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowners to whom a party may sell all or a portion of their holdings within the Master District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The Master District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop its land would restrict the rate of growth of taxable value in the Master District. See "THE DEVELOPER" and "STATUS OF DEVELOPMENT."

Maximum Impact on Service Area Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the Service Area will be the major determinant of the ability or willingness of property owners within the Service Area to pay their taxes. The 2019 assessed valuation of the Service Area is \$362,826,899 (see "TAX DATA"). After issuance of the Bonds, the maximum annual debt service requirement on the Bonds (together with the Remaining Outstanding Bonds) will be \$493,000 (2023), and the average annual debt service requirement on the Bonds (together with the Remaining Outstanding Bonds) will be \$439,908 (2020

through 2026). Assuming no increase or decrease from the 2019 assessed valuation of \$362,826,899 and no use of funds on hand, combined contract tax rates of \$0.15 and \$0.13 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. See "TAX DATA."

Increases in the Participant's tax rate to substantially higher levels than the current total tax rate levied by each Participant for 2019 may have an adverse impact upon future development of land within the Service Area, the construction of new residential and commercial improvements, and the ability of the Participants to collect, and the willingness of owners of property located within the Service Area to pay, ad valorem taxes levied by the Participants. In addition, the collection by the Participants of delinquent taxes owed to them and the enforcement by a Registered Owner of the Master District's obligations to collect sufficient Pledged Contract Payments on a Participant's obligation to collect sufficient taxes may be a costly and lengthy process. See "THE BONDS-Registered Owners Remedies," and "- Bankruptcy Limitation to Registered Owners' Rights."

Competitive Nature of Brownsville Residential Development Market

The residential industry in the area surrounding the City is very competitive, and the Master District can give no assurance that the development currently underway or proposed by Hudson, Domus and the Developing Entities or any future developer or landowner will be continued or completed. The competitive position of the Developing Entities and any other developer or landowner which might attempt future development projects in the Service Area is affected by most of the factors discussed in this section, and such competitive position is directly related to tax revenues received by the Participants and the growth and maintenance of taxable values in the Service Area.

Overlapping and Combined Tax Rates

Other governmental entities whose boundaries overlap the Service Area have outstanding bonds payable from ad valorem taxes and such governmental entities may have programs requiring the issuance of substantial amounts of additional bonds. In addition, governmental entities overlapping the Service Area are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes. See "TAX DATA – Estimated Overlapping Taxes." Because the land in the Service Area is entirely within the city limits of the City, development of land within the Service Area is at a competitive disadvantage to other land within the City which may be eligible to receive water and sewer service from the City without paying the additional taxes levied by the Participants against land within the Service Area.

Matters Related to Mexico and the Border Region

Because of its location in close proximity to Mexico, the economy of the City is likely to be significantly impacted by social, political and economic events in Mexico. Any social unrest, political instability or adverse economic developments in Mexico would be likely to have a direct and significant adverse effect on the economy of the City and on development within the Service Area.

Matters Related to the Developing Entities and Principal Landowners

Hudson has represented that the Developing Entities intend to sell developed lots and commercial tracts to individuals, homebuilders, apartment developers or office/retail developers in the Service Area. See "DEVELOPMENT WITHIN THE SERVICE AREA." However, Hudson, the Developing Entities, and Principal Landowners have no legal obligation to the Master District to carry out their current plans or any other plans of development within the Service Area. Furthermore, there is no restriction on Developing Entities or Principal Landowners selling their land. The Master District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developing Entities or Principal Landowners. See "Factors Affecting Taxable Values and Tax Payments" above.

The Developing Entities and Principal Landowners are not obligated to pay principal of and interest on the Bonds. Furthermore, the Developing Entities and Principal Landowners have no binding commitment to the Master District or to any of the Participants to carry out any plan of development in the Service Area, and the

furnishing of information relating to proposed development by Hudson, the Developing Entities and Principal Landowners should not be interpreted as such a commitment.

Hurricane Harvey/Natural Disasters

The greater area surrounding the City, including the Master District and the Service Area, is subject to occasional severe weather events, including tropical storms, hurricanes, tornadoes, hail, flooding, and other natural disasters, such as wide-spread fires or earthquakes. If the Master 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 Master District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

On August 25, 2017, Hurricane Harvey made Landfall on the Texas Gulf Coast. The Brownsville area, including the County, narrowly avoided widespread rain damage and flooding as a result of Hurricane Harvey's landfall, and historic levels of rainfall during the succeeding four days.

According to the Master District Engineer, the Master District's water, sanitary sewer, and drainage facilities sustained no damage as a result of Hurricane Harvey, and there was no interruption of water and sewer service. Furthermore, according to the Developer and the Master District Engineer, there were no homes in the Master District that experienced flooding or structural damage. The Master District cannot predict the effect that additional extreme weather events may have upon the Master District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the Service Area and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the Master District and the economy of the Master District and the region. See "TAXING PROCEDURES – Valuation of Property for Taxation."

If a future weather event or natural disaster significantly damaged taxable property within Service Area, the assessed value of property within the Service Area could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the Participants' tax rate. When requested by a local taxing unit, such as the Participants, 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. Property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead. Subject to the approval of an amendment to the Texas Constitution at an election to be held November 5, 2019, individuals in an area declared to be a disaster by the Texas Governor may obtain a temporary tax exemption for a portion of the appraised value of qualified property. Such exemption would expire on January 1 of the first year in which the property is reappraised.

Further, there can be no assurance that a casualty loss to taxable property within the Service Area 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 Service Area. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the Service Area could be adversely affected.

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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.

Coastal (or Storm Surge) Flood

Coastal flooding, or storm surge, occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

Tax Collection Limitations

The Master District's ability to make debt service payments may be adversely affected by each Participant's inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by a Participant constitutes a lien in favor of such Participant on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. Each Participant's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within six (6) months for commercial property and two (2) years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. While a Participant has a lien on taxable property within its boundaries for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to each Participant from a tax foreclosure sale.

Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within each Participant's boundaries pursuant to the Federal Bankruptcy Code could stay any attempt by each Participant to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two (2) other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six (6) years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. Upon the occurrence of an event of default, the Paying Agent/Registrar may proceed to protect and enforce the rights of the Registered Owners of the Bonds. The Indenture does provide certain limitations on the rights of

Registered Owners to institute suits, actions or proceedings at law or in equity upon the occurrence of an event of default. Subject to the limitations in the Indenture, a Registered Owner could presumably obtain a judgment against the Master District for a default in the payment of principal or interest, however such judgment could not be satisfied by execution against any property of the Master District or within the Service Area. If the Master District defaults, the Paying Agent/Registrar or Registered Owners could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Master District and the Master District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order and the Master District Contract. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "THE BONDS – Bankruptcy Limitation to Registered Owners' Rights" and "SUMMARY OF CERTAIN DOCUMENTS – Indenture."

Future Debt

Pursuant to the Master District Contract, the Master District may sell unlimited tax contract revenue bonds in an amount necessary to provide the facilities intended to be provided by the Master District on a parity with the Bonds. The Master District does not employ any formula, with respect to assessed valuations, tax collections or otherwise, to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ and the Attorney General of Texas pursuant to its rules regarding issuance and feasibility of bonds. See "DEVELOPMENT WITHIN THE SERVICE AREA."

In addition, the District has \$2,840,000 in authorized but unissued unlimited tax bonds for water, sewer and drainage facilities purposes. The District has the right to issue the \$2,840,000 authorized but unissued bonds for waterworks, wastewater and drainage facilities, (see "THE BONDS - Issuance of Additional Debt"), and additional unlimited tax bonds may hereafter be approved by both the Board and voters of the District. The Master District also has the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. See "APPENDIX B" for a description of the authorized but unissued unlimited tax bonds of MUDs 1 and 2.

Environmental and Air Quality Regulations

Wastewater treatment, water supply, storm sewer facilities, and construction activities within the Master 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; and
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a 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 Master District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the Master District.

Marketability of the Bonds

The Master District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than

the bid and asked spread of other bonds that are more generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Changes in Tax Legislation

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

The 2019 Legislative Session

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed SB 2, a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the Participants' operations and financial condition. SB 2 was signed into law by the Governor on June 12, 2019, effective for the 2020 tax season. See "TAXING PROCEDURES – Rollback of Operation and Maintenance Tax Rate."

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LEGAL MATTERS

Legal Opinions

The Master District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding Bonds of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "QUALIFIED TAX-EXEMPT OBLIGATIONS" and "TAX MATTERS – Tax Accounting Treatment Of Original Issue Discount Bonds."

Bond Counsel was engaged by, and only represents, the Master District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein. In its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "SALE AND DISTRIBUTION OF THE BONDS - Securities Laws," "THE BONDS," "PLAN OF FINANCING," "TAXING PROCEDURES," "THE MASTER DISTRICT – General," "LEGAL MATTERS," "QUALIFIED TAX-EXEMPT OBLIGATIONS," "TAX MATTERS – Tax Accounting Treatment Of Original Issue Discount Bonds," "CONTINUING DISCLOSURE OF INFORMATION BY MASTER DISTRICT" and "CONTINUING DISCLOSURE OF INFORMATION BY PARTICIPANTS" and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and sub-captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the book-entry-only system. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished to the Underwriter by the Master District.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, that to their knowledge, no litigation is pending or threatened 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.

No Material Adverse Change

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

TAX MATTERS

In the opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel ("Bond 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 excludable from gross income for federal income tax purposes under Section 103 of the Code. Bond 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.

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 Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond 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 Bond 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 Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excludable 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. Bond 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 legislative 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 Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond 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, Bond 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.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond 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.

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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 entitled to be 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.

Proposed Legislation

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

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

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 Code, 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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) computation of the adequacy of the amounts and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yields on the Bonds was verified by the Verification Agent. The computations were independently verified by the Verification Agent, based upon certain assumptions and information supplied by the Financial Advisor, on behalf of the District, and the District. The Verification

Agent has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

CONTINUING DISCLOSURE OF INFORMATION BY MASTER DISTRICT

In the Bond Order, the Master District has made the following covenants for the benefit of the Registered Owners and Beneficial Owners. The Master District is required to observe these covenants for so long as it remains obligated to advance funds to pay the Bonds. Under the covenants, the Master 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. This information will be publicly available on the MSRB's website www.emma.msrb.org.

Annual Reports

The Master District will provide certain financial information and operating data which is customarily prepared by the Master District and is publicly available, annually to the MSRB through EMMA.

The information to be updated includes all quantitative financial information and operating data with respect to the Master District of the general type included in this Official Statement under the heading "DISTRICT DEBT," "TAX DATA," and "APPENDIX C – Financial Statements of the District". The Master District will update and provide this information to the MSRB within six months after the end of each fiscal year.

The Master District may provide updated information in full text or may incorporate by reference certain other publicly available documents on the EMMA system, as permitted by Rule 15c2-12 (the "Rule") of the Securities Exchange Act of the United States Securities and Exchange Commission. The updated information will include audited financial statements, if such audit completed by the required time. If audited financial statements are not available by the required time, then the Master District shall provide unaudited financial statements for the applicable fiscal year to the EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Material Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of 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, or 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 debt obligation or derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation of the District, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves 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 EMMA

The Master District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The Master District has agreed to update information and to provide notices of material events only as described above. The Master District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Master 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 Master 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, subject to the Indenture, Registered Owners and Beneficial Owners of Bonds may seek a writ of mandamus to compel the Master District to comply with its agreement.

The Master District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Master District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the Master District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Bonds. The Master District may amend or repeal the agreement in the Bond Order if the United States Securities and Exchange Commission 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 Master 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 Master District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

CONTINUING DISCLOSURE OF INFORMATION BY PARTICIPANTS

Each Participant has executed a Continuing Disclosure Agreement (the “Agreement”) with the Master District for the benefit of the Registered Owners and Beneficial Owners. The Participants required to observe the Agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the Agreement, each Participant will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the MSRB or any successor to its functions as a repository through EMMA. This information will be publicly available on the MSRB’s website at www.emma.msrb.org.

Annual Reports

Each Participant will provide certain updated financial information and operating data annually to the MSRB.

The information to be updated includes all quantitative financial information and operating data with respect to each Participant to-wit: (i) annual audited financing statements of each Participant and (ii) the information included in this Official Statement under the heading “APPENDIX B – General Information Regarding the Participants” that relates to each Participant. Each Participant will update and provide this information to the MSRB within six months after the end of each fiscal year.

Each Participant may provide updated information in full text or may incorporate by reference certain other publicly available documents on the EMMA system, as permitted by the Rule. The updated information will include audited financial statements, if such audit completed by the required time. If audited financial statements are not available by the required time, then each Participant shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with such accounting principles as each Participant may be required to employ from time to time pursuant to state law or regulation.

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

Material Event Notices

Each Participant will provide timely notice to the MSRB of any failure by such Participant to provide information, data, or financial statements in accordance with its Agreement described above under “Annual Reports.”

Availability of Information from EMMA

The Participants are required to file their continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

Each Participant has agreed to update information and to provide notices of material events only as described above. Such Participants have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results, operations, conditions or prospects or to update any information that is provided, except as described above. Each Participant 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. Each Participant disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its Agreement or from any statement made pursuant to its Agreement, although, subject to the Indenture, Registered Owners and Beneficial Owners of the Bonds may seek a writ of mandamus to compel a Participant to comply with its Agreement.

The Participants and the Master District may amend their Agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Participants, if but only if the Agreement, as amended, would have permitted the 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, if nationally recognized bond counsel determines that the amendment will not materially impair the interests of the holders of the Bonds. If Participants and the Master District so amend the Agreement, they have agreed to include with any financial information or operating data next provided in accordance with the applicable 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. The Participants and the Master District may also amend or repeal the applicable Agreement if the United States Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in such case only to the extent that their right to do so would not prevent the Underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the last 5 years, the Participants have complied in all material respects with all continuing disclosure agreements made by them in accordance with the Rule.

OFFICIAL STATEMENT

General

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

Experts

Bond counsel has reviewed the information appearing in this Preliminary Official Statement under the captions "THE BONDS" (excluding "Book-Entry-Only System," "Yield on Premium Capital Appreciation Bonds," "Registered Owners' Remedies" and "Bankruptcy Limitations to Registered Owners' Rights") "SUMMARY OF CERTAIN DOCUMENTS," "TAXING PROCEDURES," "THE MASTER DISTRICT – General," "LEGAL MATTERS," "QUALIFIED TAX-EXEMPT OBLIGATIONS," "TAX MATTERS – Tax Accounting Treatment Of Original Issue Discount Bonds," "CONTINUING DISCLOSURE OF INFORMATION BY MASTER DISTRICT" and "CONTINUING DISCLOSURE OF INFORMATION BY PARTICIPANTS." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor conducted an investigation of the affairs of the Master District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

The information contained in the Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections entitled "THE MASTER DISTRICT" and "MASTER DISTRICT FACILITIES/UTILITY SYSTEM" has been provided by the Master District Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "COMPOSITE FINANCIAL STATEMENT," and "TAX DATA" has been provided by the Appraisal District and the Master District's Tax Assessor/Collector and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

The information contained in the Official Statement relating to development and the status of development within the Service Area generally and, in particular, the information in the sections captioned "DEVELOPMENT WITHIN THE SERVICE AREA" has been provided by the Developer and has been included herein in reliance upon the authority and knowledge of such party concerning the matters described therein.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, the Master 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 Master 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 Master District to so amend or supplement the Official Statement will terminate when the Master District delivers the Bonds to the Underwriter, unless the Underwriter notify the Master District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the Master District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the Master District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

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CONCLUDING STATEMENT

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

This Official Statement was approved by the Board of Directors of Paseo De La Resaca Municipal Utility District No. 3 of Cameron County, as of the date shown on the first page hereof.

/s/ Joe Baldwin
President, Board of Directors
Paseo De La Resaca Municipal Utility District No. 3 of
Cameron County

ATTEST:

/s/ Louise Chosy
Secretary, Board of Directors
Paseo De La Resaca Municipal Utility District No. 3 of
Cameron County

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APPENDIX A

SCHEDULE OF ACCRETED VALUES FOR PREMIUM CAPITAL APPRECIATION BONDS

	<u>PCAB September 1, 2020</u>	<u>PCAB September 1, 2021</u>
10/17/2019	\$ 4,285.71	\$ 4,156.63
03/01/2020	4,577.10	4,312,.10
09/01/2020	5,000.00	4,530.20
03/01/2021	-	4,759.30
09/01/2021	-	5,000.00

APPENDIX B

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 1

Status of Development as of July 15, 2019

Following table is a summary of the development within MUD 1 by land use:

Land Use	Approximate Acreage	Lots/Units
Single Family Residential	77	274
Multi-Family Residential	41	602
Park	17	
School/Church	15	
Commercial	28	
Undeveloped (Commercial)	18	
Undevelopable	<u>47</u>	
Total	235	

The following table is a detailed summary of the development within the single family subdivisions within MUD 1:

Single-Family Residential Subdivision	Single-Family (a)			
	Platted Lots	Homes Completed	Homes Under Construction	Vacant Lots
Havenwood	93	90	0	3
Deerfield	89	81	2	6
La Hacienda	41	32	3	6
Seville Gardens	<u>51</u>	<u>51</u>	<u>0</u>	<u>0</u>
Total	274	254	5	15

(a) Some homes are built on double lots. Certain vacant lots may not be available for development.

Selected Financial Information

2019 Assessed Valuation\$ 92,732,839 (a)

Outstanding Debt Based on the 2019 Assessed Valuation

	Gross Debt Outstanding	Average Annual Debt Requirement	Maximum Annual Debt Requirement
Direct Obligations of MUD 1 (b)	\$ 1,220,000	\$ 110,119	\$ 115,104
Contract Unlimited Tax Bonds (c)	<u>798,750</u>	<u>119,640</u>	<u>129,217</u>
Total	<u><u>\$ 2,018,750</u></u>	<u><u>\$ 229,759</u></u>	<u><u>\$ 244,321</u></u>

Ratio of Gross Debt Outstanding to 2019 Assessed Valuation.....2.18 %

(a) As certified by the Cameron Appraisal District (the "Appraisal District").

(b) Debt issued by MUD 1 to acquire or construct internal facilities. See "Bonds Authorized but Unissued" below.

(c) MUD 1's pro rata share (25.56%) of the Bonds based upon the Service Area assessed valuation (\$362,826,899) for 2019. See "THE BONDS – Source of Payment."

Tax Information

	District	Contract	Total
Tax Rate required to pay Average Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.13/\$100 A.V.	\$0.14/\$100 A.V.	\$0.27/\$100 A.V.
Tax Rate required to pay Maximum Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.14/\$100 A.V.	\$0.15/\$100 A.V.	\$0.29/\$100 A.V.

Tax Rate Distribution

	2019	2018	2017	2016	2015	2014
Debt Service	\$0.150	\$0.150	\$0.150	\$0.180	\$0.180	\$0.180
Maintenance	0.110	0.110	0.115	0.110	0.090	0.090
Contract (a)	<u>0.135</u>	<u>0.135</u>	<u>0.135</u>	<u>0.130</u>	<u>0.150</u>	<u>0.150</u>
	\$0.395	\$0.395	\$0.400	\$0.420	\$0.420	\$0.420

(a) Levied to pay its pro rata share of debt service on Master District bonds, including the Bonds. See "SUMMARY OF CERTAIN DOCUMENTS – Master District Contract."

Tax Collection History

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Total Collection Percent
2014	\$ 71,418,997	\$ 0.420	\$ 299,960	99.66 %
2015	72,611,320	0.420	304,968	99.65
2016	72,420,069	0.420	304,164	99.42
2017	74,311,469	0.400	297,246	98.70
2018	75,982,607	0.395	300,131	94.47

Principal Taxpayers of 2018

Taxpayer	Type Property	2018 Value
Brownsville TX FM 802 BIG 22 LLC	Land & Improvements	\$ 5,254,896
TPI Paseo Real LLC	Land & Improvements	3,891,987
Valley Resaca Palms	Land & Improvements	2,903,995
Shree Maa Krupa Properties Ltd	Land & Improvements	2,900,000
Winland Las Campanas LLC	Land & Improvements	2,063,701
ARC GSBRTX001 LLC	Land & Improvements	1,040,019
Chick-Fil-A Inc	Land & Improvements	797,515
Thurber Investments Co Ltd	Land & Improvements	716,842
Chick-Fil-A Inc	Land & Improvements	597,570
Hinkle Development Company	Land & Improvements	<u>554,355</u>
Total		<u>\$ 20,720,880</u>
% of Principal Taxpayers on 2018 Tax Roll		27.27 %

Bonds Authorized But Unissued

Date of Authorization	Vote		Purpose	Authorized	Issued to Date	Unissued
	For	Against				
August 9, 1997	2	0	Water, Wastewater & Drainage	\$6,200,000	\$1,760,000	\$4,440,000

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 2

Status of Development as of July 15, 2019

Following table is a summary of the development within MUD 2 by land use:

Land Use	Approximate Acreage	Lots/Units
Single Family Residential	158	666
Multi-Family Residential	0	0
Park	72	
School/Church	35	
Commercial	25	
Undeveloped (Commercial)	86	
Undevelopable	<u>47</u>	
Total	423	

The following table is a detailed summary of the development within the single family subdivisions within the MUD 2:

Single-Family Residential Subdivision	Single-Family (a)			
	Platted Lots	Homes Completed	Homes Under Construction	Vacant Lots
Parkview	101	100	0	1
Regency Park	6	6	0	0
Arbor Park	33	33	0	0
Portofino	79	71	3	5
Fox Hollow	22	18	0	4
Emerald Cove	59	57	0	2
Emerald Valley	129	129	0	0
La Villita	<u>237</u>	<u>225</u>	<u>3</u>	<u>9</u>
Total	666	639	6	21

(a) Some homes are built on double lots. Certain vacant lots may not be available for development.

Selected Financial Information

2019 Assessed Valuation \$ 153,124,806 (a)

Outstanding Debt Based on the 2019 Assessed Valuation

	Gross Debt Outstanding	Average Annual Debt Requirement	Maximum Annual Debt Requirement
Direct Obligations of MUD 2 (b)	\$ 1,875,000	\$ 169,856	\$ 184,104
Contract Unlimited Tax Bonds (c)	<u>1,318,750</u>	<u>197,527</u>	<u>213,339</u>
Total	<u>\$ 3,193,750</u>	<u>\$ 367,383</u>	<u>\$ 397,443</u>

Ratio of Gross Debt Outstanding to 2019 Assessed Valuation.....2.09 %

(a) As certified by the Appraisal District.

(b) Debt issued by MUD 2 to acquire or construct internal facilities. See "Bonds Authorized but Unissued" below.

(c) MUD 2's pro rata share (42.20%) of the Bonds based upon the Service Area assessed valuation (\$362,826,899) for 2019. See "THE BONDS - Source of Payment."

Tax Information

	District	Contract	Total
Tax Rate required to pay Average Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.12/\$100 A.V.	\$0.14/\$100 A.V.	\$0.26/\$100 A.V.
Tax Rate required to pay Maximum Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.13/\$100 A.V.	\$0.15/\$100 A.V.	\$0.28/\$100 A.V.

Tax Rate Distribution

	2019	2018	2017	2016	2015	2014
Debt Service	\$0.050	\$0.050	\$0.115	\$0.140	\$0.155	\$0.170
Maintenance	0.160	0.160	0.150	0.140	0.115	0.100
Contract (a)	<u>0.130</u>	<u>0.130</u>	<u>0.135</u>	<u>0.140</u>	<u>0.150</u>	<u>0.150</u>
	\$0.340	\$0.340	\$0.400	\$0.420	\$0.420	\$0.420

(a) Levied to pay its pro rata share of debt service on Master District bonds, including the Bonds. See "SUMMARY OF CERTAIN DOCUMENTS – Master District Contract."

Tax Collection History

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Total Collection Percent
2014	\$ 108,042,235	\$ 0.420	\$ 453,777	100.00 %
2015	116,665,103	0.420	489,993	100.00
2016	132,306,965	0.420	555,689	99.89
2017	135,807,613	0.400	543,230	99.19
2018	140,109,387	0.340	476,372	93.07

Principal Taxpayers of 2018

Taxpayer	Type Property	2018 Value
Wal-Mart Stores Texas LP	Land & Improvements	\$ 8,150,466
Walmart Real Estate Business Trust	Land & Improvements	6,236,222
Realty Income Properties 8 LLC	Land & Improvements	5,841,528
CTR Partnership LP	Land & Improvements	2,595,992
BES Merit Properties LLC	Land & Improvements	1,668,092
International American Maintenance Inc	Land & Improvements	1,334,285
AATIC VI Limited Partnership	Land & Improvements	1,322,307
Walgreen Co	Land & Improvements	1,210,814
Mesta Living Trust U/T/A Dated Nov 11, 2006	Land & Improvements	1,139,487
Cognato Angela L TR ET AL	Land & Improvements	<u>1,078,396</u>
Total		<u>\$ 30,577,589</u>
% of Principal Taxpayers on 2018 Tax Roll		21.82 %

Bonds Authorized But Unissued

Date of Authorization	Vote		Purpose	Authorized	Issued to Date	Unissued
	For	Against				
August 9, 1997	2	0	Water, Wastewater & Drainage	\$10,100,000	\$2,685,000	\$7,415,000

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3

Status of Development as of July 15, 2019

Following table is a summary of the development within the District by land use:

Land Use	Approximate Acreage	Lots/Units
Single Family Residential	180	927
Multi-Family Residential	0	0
Park	19	
School/Church	0	
Commercial	0	
Undeveloped (Commercial)	0	
Undevelopable	<u>31</u>	
Total	230	

The following table is a detailed summary of the development within the single family subdivisions within the District:

Single-Family Residential Subdivision	Single-Family (a)			
	Platted Lots	Homes Completed	Homes Under Construction	Vacant Lots
Parkview	323	304	0	19
Regency Park	46	46	0	0
Arbor Park	75	75	0	0
Creekwood	92	89	0	3
Brookhaven	130	128	0	2
La Villita	<u>261</u>	<u>249</u>	<u>6</u>	<u>6</u>
Total	927	891	6	30

(a) Some homes are built on double lots. Certain vacant lots may not be available for development.

Selected Financial Information

2019 Assessed Valuation \$ 116,969,254 (a)

Outstanding Debt Based on the 2019 Assessed Valuation

	Gross Debt Outstanding	Average Annual Debt Requirement	Maximum Annual Debt Requirement
Direct Obligations of the District (b)	\$ 2,330,000	\$ 209,794	\$ 219,859
Contract Unlimited Tax Bonds (c)	<u>1,007,500</u>	<u>150,907</u>	<u>162,987</u>
Total	<u><u>\$ 3,337,500</u></u>	<u><u>\$ 360,701</u></u>	<u><u>\$ 382,846</u></u>

Ratio of Gross Debt Outstanding to 2019 Assessed Valuation.....2.85 %

(a) As certified by the Appraisal District.

(b) Debt issued by the District to acquire or construct internal facilities. See "Bonds Authorized but Unissued" below.

(c) The District's pro rata share (32.24%) of the Bonds based upon the Service Area assessed valuation (\$362,826,899) for 2019. See "THE BONDS – Source of Payment."

Tax Information

	District	Contract	Total
Tax Rate required to pay Average Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.19/\$100 A.V.	\$0.14/\$100 A.V.	\$0.33/\$100 A.V.
Tax Rate required to pay Maximum Annual Debt Service Requirement based on 2019 Assessed Valuation at 95% collections	\$0.20/\$100 A.V.	\$0.15/\$100 A.V.	\$0.35/\$100 A.V.

Tax Rate Distribution

	2019	2018	2017	2016	2015	2014
Debt Service	\$0.190	\$0.190	\$0.190	\$0.240	\$0.245	\$0.250
Maintenance	0.070	0.070	0.075	0.050	0.025	0.020
Contract (a)	<u>0.130</u>	<u>0.130</u>	<u>0.135</u>	<u>0.130</u>	<u>0.150</u>	<u>0.150</u>
	\$0.390	\$0.390	\$0.400	\$0.420	\$0.420	\$0.420

(a) Levied to pay its pro rata share of debt service on Master District bonds, including the Bonds. See "SUMMARY OF CERTAIN DOCUMENTS – Master District Contract."

Tax Collection History

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Total Collection Percent
2014	\$ 99,182,482	\$ 0.420	\$ 416,566	100.00 %
2015	102,126,026	0.420	428,929	100.00
2016	104,203,555	0.420	437,655	99.83
2017	109,613,994	0.400	438,456	99.21
2018	114,233,124	0.390	445,509	96.58

Principal Taxpayers of 2018

Taxpayer	Type Property	2018 Value
GBI Properties LLC	Land & Improvements	\$ 954,736
RGV Porvenir LLC	Land & Improvements	522,279
Virtudes Real Estate LLC	Land & Improvements	417,275
Makaira International LLC	Land & Improvements	413,215
Jobimex LLC	Land & Improvements	387,989
Homeowner	Land & Improvements	318,402
Homeowner	Land & Improvements	278,692
Jobiland LLC	Land & Improvements	274,506
Homeowner	Land & Improvements	267,000
El Olivo Homes LLC	Land & Improvements	<u>262,711</u>
Total		<u>\$ 4,096,805</u>

% of Principal Taxpayers on 2018 Tax Roll

3.59 %

Bonds Authorized But Unissued

Date of Authorization	Vote		Purpose	Authorized	Issued to Date	Unissued
	For	Against				
August 9, 1997	2	0	Water, Wastewater & Drainage	\$6,200,000	\$3,360,000	\$2,840,000

APPENDIX C
FINANCIAL STATEMENTS OF THE DISTRICT

**PASEO DE LA RESACA MUNICIPAL
UTILITY DISTRICT NO. 3**

CAMERON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2018

**PASEO DE LA RESACA MUNICIPAL
UTILITY DISTRICT NO. 3**

CAMERON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Paseo De La Resaca Municipal
Utility District No. 3
Cameron County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Paseo De La Resaca Municipal Utility District No. 3 (the "District"), as of and for the year ended July 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 29, 2019

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2018**

Management's discussion and analysis of Paseo De La Resaca Municipal Utility District No. 3's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for maintenance tax revenues and administrative expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt, contract debt and the cost of assessing and collecting taxes.

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$257,050 as of July 31, 2018. The following is a comparative summary of the Statement of Net Position as of July 31, 2018 and July 31, 2017.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 1,408,255	\$ 1,413,734	\$ (5,479)
Intangible Assets (Net of Accumulated Amorization)	4,324,577	4,478,840	(154,263)
Total Assets	\$ 5,732,832	\$ 5,892,574	\$ (159,742)
Deferred Outflows of Resources	\$ 97,109	\$ 104,463	\$ (7,354)
Bonds Payable	\$ 5,998,119	\$ 6,475,050	\$ 476,931
Other Liabilities	88,872	101,152	12,280
Total Liabilities	\$ 6,086,991	\$ 6,576,202	\$ 489,211
Net Position:			
Net Investment in Capital Assets	\$ (1,576,433)	\$ (1,891,747)	\$ 315,314
Restricted	1,191,672	1,225,541	(33,869)
Unrestricted	127,711	87,041	40,670
Total Net Position	\$ (257,050)	\$ (579,165)	\$ 322,115

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

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Tax Revenues	\$ 290,688	\$ 302,225	\$ (11,537)
Contract Tax Revenues	431,753	415,405	16,348
Penalty and Interest	7,625	2,741	4,884
Other Revenues	7,850	783	7,067
Total Revenues	\$ 737,916	\$ 721,154	\$ 16,762
Expenses for Services	415,801	476,490	60,689
Change in Net Position	\$ 322,115	\$ 244,664	\$ 77,451
Net Position, Beginning of Year	(579,165)	(823,829)	244,664
Net Position, End of Year	\$ (257,050)	\$ (579,165)	\$ 322,115

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2018**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of July 31, 2018, were \$1,367,376, an increase of \$5,958 from the prior year.

The General Fund fund balance increased by \$43,686, primarily due to maintenance tax revenues exceeding administrative expenditures.

The Debt Service Fund fund balance decreased by \$37,728, primarily due to the structure of the District's outstanding.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$2,196 more than budgeted revenues. Actual expenditures were \$764 more than budgeted expenditures.

INTANGIBLE ASSETS

Water, sewer and drainage facilities are purchased by the District and then conveyed to the Public Utilities Board of the City of Brownsville, Texas (the "City") for operations and maintenance in accordance with an agreement with the City. The City provides water and sewer service to residents of the District. The cost of constructing the facilities in exchange for service has been recorded as an intangible asset and is being amortized over the term of the agreement.

LONG-TERM DEBT ACTIVITY

As of July 31, 2018, the District had total bond debt payable of \$5,940,000. The changes in the debt position of the District during the fiscal year ended July 31, 2018, are summarized as follows:

Bond Debt Payable, August 1, 2017	\$ 6,410,000
Less: Bond Principal Paid	<u>470,000</u>
Bond Debt Payable, July 31, 2018	<u><u>\$ 5,940,000</u></u>

The District carries an underlying rating of BBB+. The Series 2003 bonds carry an insured rating of AA by virtue of bond insurance issued by Assured Guaranty Corporation. The above ratings are as of July 31, 2018, and reflect changes, if any, during the fiscal year.

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2018**

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Paseo De La Resaca Municipal Utility District No. 3, c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP, 1980 Post Oak Blvd., Suite 1380, Houston, Texas 77056.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 26,164	\$ 190,455
Investments	75,000	1,056,721
Cash with Tax Assessor/Collector		621
Receivables:		
Property Taxes	1,781	9,060
Accrued Interest	519	655
Due from Other Funds	254	
Prepaid Costs		
Due from Other Governmental Units		18,495
Intangible Assets (Net of Accumulated Amortization)		
TOTAL ASSETS	<u>\$ 103,718</u>	<u>\$ 1,276,007</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 103,718</u>	<u>\$ 1,276,007</u>
LIABILITIES		
Accounts Payable	\$ 4,791	\$ 100
Accrued Interest Payable		
Due to Other Funds		254
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 4,791</u>	<u>\$ 354</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Tax Revenues	\$ 1,781	\$ 5,423
FUND BALANCES		
Restricted for Debt Service	\$ 97,146	\$ 1,270,230
Unassigned		
TOTAL FUND BALANCES	<u>\$ 97,146</u>	<u>\$ 1,270,230</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 103,718</u>	<u>\$ 1,276,007</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Total	Adjustments	Statement of Net Position
\$ 216,619	\$	\$ 216,619
1,131,721		1,131,721
621		621
10,841		10,841
1,174		1,174
254	(254)	
	28,784	28,784
18,495		18,495
	4,324,577	4,324,577
<u>\$ 1,379,725</u>	<u>\$ 4,353,107</u>	<u>\$ 5,732,832</u>
\$ -0-	\$ 97,109	\$ 97,109
<u>\$ 1,379,725</u>	<u>\$ 4,450,216</u>	<u>\$ 5,829,941</u>
\$ 4,891	\$	\$ 4,891
254	83,981	83,981
	(254)	
	485,000	485,000
	5,513,119	5,513,119
<u>\$ 5,145</u>	<u>\$ 6,081,846</u>	<u>\$ 6,086,991</u>
\$ 7,204	\$ (7,204)	\$ -0-
\$ 1,270,230	\$ (1,270,230)	\$
97,146	(97,146)	
<u>\$ 1,367,376</u>	<u>\$ (1,367,376)</u>	<u>\$ -0-</u>
<u>\$ 1,379,725</u>		
	\$ (1,576,433)	\$ (1,576,433)
	1,191,672	1,191,672
	127,711	127,711
	<u>\$ (257,050)</u>	<u>\$ (257,050)</u>

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2018

Total Fund Balances - Governmental Funds		\$ 1,367,376
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Prepaid bond insurance is amortized over the life of the bonds in governmental activities.		28,784
Intangible assets are not current financial resources and, therefore, are not reported as assets in governmental funds.		4,324,577
Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter.		97,109
Deferred inflows of resources related to property tax revenues for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		7,204
Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:		
Accrued Interest Payable	\$ (83,981)	
Bonds Payable	<u>(5,998,119)</u>	<u>(6,082,100)</u>
Total Net Position - Governmental Activities		<u>\$ (257,050)</u>

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

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PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Maintenance/Debt Service Tax Revenues	\$ 81,761	\$ 209,986
Contract Tax Revenues		579,840
Penalty and Interest		7,625
Miscellaneous Revenues	<u>519</u>	<u>7,331</u>
TOTAL REVENUES	<u>\$ 82,280</u>	<u>\$ 804,782</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 27,887	\$ 2,575
Contracted Services	6,297	12,914
Amortization		
Other	4,410	867
Contract Tax Obligation		148,087
Debt Service:		
Bond Principal		470,000
Bond Interest		<u>208,067</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 38,594</u>	<u>\$ 842,510</u>
NET CHANGE IN FUND BALANCES	\$ 43,686	\$ (37,728)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2017	<u>53,460</u>	<u>1,307,958</u>
FUND BALANCES/NET POSITION - JULY 31, 2018	<u><u>\$ 97,146</u></u>	<u><u>\$ 1,270,230</u></u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 291,747	\$ (1,059)	\$ 290,688
579,840	(148,087)	431,753
7,625		7,625
<u>7,850</u>	<u></u>	<u>7,850</u>
<u>\$ 887,062</u>	<u>\$ (149,146)</u>	<u>\$ 737,916</u>
\$ 30,462	\$	\$ 30,462
19,211		19,211
	154,263	154,263
5,277		5,277
148,087	(148,087)	
470,000	(470,000)	
<u>208,067</u>	<u>(1,479)</u>	<u>206,588</u>
<u>\$ 881,104</u>	<u>\$ (465,303)</u>	<u>\$ 415,801</u>
\$ 5,958	\$ (5,958)	\$
	322,115	322,115
<u>1,361,418</u>	<u>(1,940,583)</u>	<u>(579,165)</u>
<u>\$ 1,367,376</u>	<u>\$ (1,624,426)</u>	<u>\$ (257,050)</u>

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

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ 5,958
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(1,059)
Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized and amortization expense is recorded in the Statement of Activities.	(154,263)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	470,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	1,479
Change in Net Position - Governmental Activities	<u>\$ 322,115</u>

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 1. CREATION OF DISTRICT

Paseo De La Resaca Municipal Utility District No. 3 (the “District”) was created effective June 25, 1997, by the Texas Natural Resources Conservation Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The District was created for the purpose of providing water, sanitary sewer and drainage facilities to the approximately 230 acres within its boundaries (“Internal District”). The District also serves as a regional provider of water, wastewater and drainage facilities (the “Master District”) for Paseo De La Resaca Municipal Utility District No. 1 and Paseo De La Resaca Municipal Utility District No. 2 which are located within the Paseo De La Resaca project. The Board held its first meeting on June 25, 1997, and the first bonds were delivered on July 13, 1999.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

General Fund - To account for maintenance tax revenues and administrative expenditures.

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. The Debt Service Fund recorded a payable to the General Fund in the amount of \$254 for current maintenance tax collections.

Intangible Assets

Water, sewer and drainage facilities are purchased by the District and then conveyed to the Public Utilities Board of the City of Brownsville, Texas (the “City”) for operations and maintenance in accordance with an agreement with the City. The City provides water and sewer service to residents of the District. The cost of constructing the facilities in exchange for service has been recorded as an intangible asset and is being amortized over the term of the agreement.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

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

Pensions

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

Measurement Focus

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

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

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

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	<u>Refunding Series 2016</u>
Amount Outstanding – July 31, 2018	\$ 2,475,000
Interest Rates	2.26%
Maturity Dates – Serially Beginning/Ending	September 1, 2018/2031
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2024*

- * The bonds shall be subject to redemption at the option of the District, as a whole at any time on or after September 1, 2024, upon payment of a redemption price equal to the principal amount thereof together with interest, if any, accrued thereon, from the most recent interest payment date to the redemption date.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The District has authorized but unissued bonds in the amount of \$2,840,000 for Internal District facilities. The following is a summary of transactions regarding bonds payable for the year ended July 31, 2018:

	August 1, 2017	Additions	Retirements	July 31, 2018
Bonds Payable	<u>\$ 2,620,000</u>	<u>\$ -0-</u>	<u>\$ 145,000</u>	<u>\$ 2,475,000</u>
		Amount Due Within One Year		\$ 145,000
		Amount Due After One Year		<u>2,330,000</u>
		Bonds Payable		<u>\$ 2,475,000</u>

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

Fiscal Year	Principal	Interest	Total
2019	\$ 145,000	\$ 54,296	\$ 199,296
2020	150,000	50,963	200,963
2021	150,000	47,573	197,573
2022	160,000	44,070	204,070
2023	165,000	40,398	205,398
2024-2028	895,000	143,454	1,038,454
2029-2032	<u>810,000</u>	<u>37,403</u>	<u>847,403</u>
	<u>\$ 2,475,000</u>	<u>\$ 418,157</u>	<u>\$ 2,893,157</u>

The Series 2016 Refunding 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.

During the year ended July 31, 2018, the District levied an ad valorem debt service tax rate of \$0.19 per \$100 of assessed valuation, which resulted in a tax levy of \$208,417 on the adjusted taxable valuation of \$109,693,684 for the 2017 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy and Note 8 for the contract tax levy.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$412,601 and the bank balance was \$412,601. The District was not exposed to custodial credit risk at year-end.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 26,164	\$ 75,000	\$ 101,164
DEBT SERVICE FUND	190,455	120,982	311,437
TOTAL DEPOSITS	<u>\$ 216,619</u>	<u>\$ 195,982</u>	<u>\$ 412,601</u>

Investments

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

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

The District invests in the Bank of New York Mellon Government Money Market Fund ("BNY"), which is an SEC-registered money market mutual fund. The District measures its investment in BNY at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from BNY.

Certificates of deposit are recorded at amortized cost.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Certificate of Deposit	\$ 75,000	\$ 75,000
<u>DEBT SERVICE FUND</u>		
Certificate of Deposit	120,982	120,982
Money Market Mutual Fund	<u>935,739</u>	<u>935,739</u>
TOTAL INVESTMENTS	<u>\$ 1,131,721</u>	<u>\$ 1,131,721</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2018, the District's investment in the money market mutual fund was rated AA- by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit with balances below FDIC insurance.

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

Restrictions

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

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 6. INTANGIBLE ASSETS

Water, sewer and drainage facilities are purchased by the District and then conveyed to the Public Utilities Board of the City of Brownsville, Texas (the "City") for operations and maintenance in accordance with an agreement with the City. The City provides water and sewer service to residents of the District. The cost of constructing the facilities in exchange for service has been recorded as an intangible asset and is being amortized over the term of the agreement. Intangible assets as of July 31, 2018, were \$4,324,577 with current year amortization costs totaling \$154,263.

NOTE 7. MAINTENANCE TAX

On August 9, 1997, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.75 per \$100 of assessed valuation of taxable property within the District. During the year ended July 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.075 per \$100 of assessed valuation, which resulted in a tax levy of \$82,271 on the adjusted taxable valuation of \$109,693,684 for the 2017 tax year. This maintenance tax is to be used by the General Fund to pay operating expenditures of the District.

NOTE 8. CONSTRUCTION AND FINANCING OF REGIONAL FACILITIES

The Master District entered into regional contracts whereby the Master District agreed to provide or cause to be provided regional water supply and delivery facilities and the regional waste collection facilities necessary to serve the participating districts. The contracts were amended on July 11, 2002, to provide for regional drainage facilities to serve the participating districts. The contracts are as follows:

<u>District</u>	<u>Date of Agreement</u>
Paseo De La Resaca Municipal Utility District No. 1	August 9, 1997
Paseo De La Resaca Municipal Utility District No. 2	August 9, 1997
Paseo De La Resaca Municipal Utility District No. 3	August 9, 1997

The Master District is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all Districts in the service area. Principal and interest on the bonds are payable from and secured by an unconditional obligation to make certain payments by the participating districts in the applicable service area pursuant to the contracts. The participants have agreed to pay a pro rata share of the debt service of the bonds based on the certified assessed valuation of each participant as a percentage of the total assessed valuation of all participating districts. Each participating district levied an ad valorem contract tax rate of \$0.135 per \$100 of assessed valuation, which resulted in contract tax revenues of \$431,753 from the three participants.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 8. CONSTRUCTION AND FINANCING OF REGIONAL FACILITIES
(Continued)

The bonds are further secured by an Indenture of Trust (the “Indenture”) from the Master District to The Bank of New York (the “Trustee”). Pursuant to the Indenture, the Master District has assigned to the Trustee all of the Master District’s rights, title and interest in and to the contract payments from the participants.

	Series 2003	Refunding Series 2011
Amount Outstanding – July 31, 2018	\$ 970,000	\$ 2,495,000
Interest Rates	4.75%	3.50%-4.75%
Maturity Dates – Serially Beginning/Ending	September 1, 2023/2026	September 1, 2018/2026
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2011*	September 1, 2019*

* Or any date thereafter, in whole or in part, at the par plus accrued interest to the date fixed for redemption. Series 2011 term bonds maturing September 1, 2026, are subject to mandatory redemption beginning September 1, 2025.

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

	August 1, 2017	Additions	Retirements	July 31, 2018
Bonds Payable	\$ 3,790,000	\$	\$ 325,000	\$ 3,465,000
Unamortized Discounts	(71,159)		(7,932)	(63,227)
Unamortized Premiums	136,209		14,863	121,346
Bonds Payable, Net	<u>\$ 3,855,050</u>	<u>\$ -0-</u>	<u>\$ 331,931</u>	<u>\$ 3,523,119</u>
		Amount Due Within One Year		\$ 340,000
		Amount Due After One Year		3,183,119
		Bonds Payable, Net		<u>\$ 3,523,119</u>

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2018

NOTE 8. CONSTRUCTION AND FINANCING OF REGIONAL FACILITIES
(Continued)

The Master District may issue an unlimited amount of additional contract revenue bonds necessary to provide improvements and facilities pursuant to the terms of the Master District Contract, with the approval of the Commission, and Participants would be responsible for the debt service on such bonds. As of July 31, 2018, the debt service requirements on the contract bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 340,000	\$ 140,094	\$ 480,094
2020	355,000	128,356	483,356
2021	370,000	115,206	485,206
2022	385,000	100,568	485,568
2023	410,000	84,156	494,156
2024-2027	1,605,000	145,516	1,750,516
	<u>\$ 3,465,000</u>	<u>\$ 713,896</u>	<u>\$ 4,178,896</u>

NOTE 9. FACILITIES AND OPERATING COSTS REIMBURSEMENT AGREEMENT

On June 25, 1997, the District executed an agreement with Verde Montana Partners, LTD., Benefacing LTD., Chris C. Hudson, Trustee for the Hubert R. Hudson Testamentary Trust for William H. Hudson, Virginia L. Dean, Successor Trustee for Hubert R. Hudson Testamentary Trust for Caroline Hudson, Lynch Firestone Collectively known as the (“Developer”). The District will act to construct facilities to serve the land within its boundaries and the Developer agrees to fund the facilities until such time as the District can sell bonds for the purpose of reimbursing the Developer. The amount to be reimbursed shall be limited by an agreement concerning creation and operation of the District between the Developer and the City of Brownsville dated September 13, 1996.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had any settlements in the past three fiscal years.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2018

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 80,084	\$ 81,761	\$ 1,677
Miscellaneous Revenues		519	519
TOTAL REVENUES	<u>\$ 80,084</u>	<u>\$ 82,280</u>	<u>\$ 2,196</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 26,500	\$ 27,887	\$ (1,387)
Contracted Services	6,300	6,297	3
Other	5,030	4,410	620
TOTAL EXPENDITURES	<u>\$ 37,830</u>	<u>\$ 38,594</u>	<u>\$ (764)</u>
NET CHANGE IN FUND BALANCE	\$ 42,254	\$ 43,686	\$ 1,432
FUND BALANCE - AUGUST 1, 2017	<u>53,460</u>	<u>53,460</u>	
FUND BALANCE - JULY 31, 2018	<u><u>\$ 95,714</u></u>	<u><u>\$ 97,146</u></u>	<u><u>\$ 1,432</u></u>

See accompanying independent auditor's report.

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PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JULY 31, 2018

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2018**

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

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

The Public Utilities Board of the City of Brownsville is responsible for the operation and maintenance of the water, sewer and drainage facilities within the District. See also Note 6.

2. RETAIL SERVICE PROVIDERS: NOT APPLICABLE

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: NOT APPLICABLE

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Cameron County, Texas

Is the District located within a city?

See accompanying independent auditor's report.

**PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2018**

5. LOCATION OF DISTRICT: (Continued)

Entirely X Partly Not at all

City in which District is located:

City of Brownsville, Texas

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

Entirely Partly Not at all X

Are Board Members appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2018

PROFESSIONAL FEES:

Auditing	\$ 8,500
Engineering	21
Legal	<u>19,366</u>

TOTAL PROFESSIONAL FEES	<u>\$ 27,887</u>
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CONTRACTED SERVICES:

Bookkeeping	<u>\$ 6,297</u>
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ADMINISTRATIVE EXPENDITURES:

Director Fees	\$ 2,400
Insurance	1,794
Payroll Taxes	184
Other	<u>32</u>

TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 4,410</u>
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TOTAL EXPENDITURES	<u><u>\$ 38,594</u></u>
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See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
INVESTMENTS
JULY 31, 2018

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX0769	1.90%	12/11/18	\$ 75,000	\$ 519
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX0323	1.25%	08/27/18	\$ 120,982	\$ 655
Money Market Mutual Fund	XXXX2935	Varies	Daily	914,919	
Money Market Mutual Fund	XXXX2937	Varies	Daily	20,820	
TOTAL DEBT SERVICE FUND				<u>\$ 1,056,721</u>	<u>\$ 655</u>
TOTAL - ALL FUNDS				<u>\$ 1,131,721</u>	<u>\$ 1,174</u>

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2018

	<u>Maintenance Taxes</u>		<u>Contract Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -						
AUGUST 1, 2017	\$ 1,271		\$ 3,891		\$ 6,992	
Adjustments to						
Beginning Balance	<u> </u>	\$ 1,271	<u> </u>	\$ 3,891	<u> </u>	\$ 6,992
Original 2017 Tax Levy	\$ 82,560		\$ 148,609		\$ 209,154	
Adjustment to 2017						
Tax Levy	<u>(289)</u>	<u>82,271</u>	<u>(521)</u>	<u>148,088</u>	<u>(737)</u>	<u>208,417</u>
TOTAL TO BE						
ACCOUNTED FOR		\$ 83,542		\$ 151,979		\$ 215,409
TAX COLLECTIONS:						
Prior Years	\$ 1,025		\$ 3,018		\$ 5,458	
Current Year	<u>80,736</u>	<u>81,761</u>	<u>145,324</u>	<u>148,342</u>	<u>204,528</u>	<u>209,986</u>
TAXES RECEIVABLE -						
JULY 31, 2018		<u>\$ 1,781</u>		<u>\$ 3,637</u>		<u>\$ 5,423</u>
TAXES RECEIVABLE						
BY YEAR:						
2017	\$ 1,535		\$ 2,764		\$ 3,889	
2016	190		493		910	
2015	32		194		317	
2014	23		170		283	
2013 and Prior	<u>1</u>		<u>16</u>		<u>24</u>	
TOTAL	<u>\$ 1,781</u>		<u>\$ 3,637</u>		<u>\$ 5,423</u>	

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 23,725,023	\$ 23,597,533	\$ 23,591,533	\$ 22,514,158
Improvements	89,646,892	82,531,909	81,438,186	78,220,311
Personal Property	170,521	78,227	114,122	133,606
Exemptions	<u>(3,848,752)</u>	<u>(1,990,675)</u>	<u>(3,007,815)</u>	<u>(1,628,141)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 109,693,684</u>	<u>\$ 104,216,994</u>	<u>\$ 102,136,026</u>	<u>\$ 99,239,934</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.190	\$ 0.24	\$ 0.245	\$ 0.25
Contract	0.135	0.13	0.150	0.15
Maintenance	<u>0.075</u>	<u>0.05</u>	<u>0.025</u>	<u>0.02</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.400</u>	<u>\$ 0.42</u>	<u>\$ 0.420</u>	<u>\$ 0.42</u>
ADJUSTED TAX LEVY*	<u>\$ 438,776</u>	<u>\$ 437,711</u>	<u>\$ 428,971</u>	<u>\$ 416,808</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.13 %</u>	<u>99.64 %</u>	<u>99.87 %</u>	<u>99.89 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.75 per \$100 of assessed valuation approved by voters on August 9, 1997.

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2018

C O N T R A C T R E V E N U E B O N D S S E R I E S - 2 0 0 3			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$	\$ 46,075	\$ 46,075
2020		46,075	46,075
2021		46,075	46,075
2022		46,075	46,075
2023		46,075	46,075
2024	220,000	40,850	260,850
2025	235,000	30,043	265,043
2026	250,000	18,525	268,525
2027	265,000	6,294	271,294
2028			
2029			
2030			
2031			
2032			
	<u>\$ 970,000</u>	<u>\$ 326,087</u>	<u>\$ 1,296,087</u>

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2018

CONTRACT REVENUE BONDS
 SERIES - 2011 REFUNDING

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 340,000	\$ 94,019	\$ 434,019
2020	355,000	82,281	437,281
2021	370,000	69,131	439,131
2022	385,000	54,493	439,493
2023	410,000	38,081	448,081
2024	210,000	24,644	234,644
2025	215,000	14,947	229,947
2026	100,000	7,600	107,600
2027	110,000	2,613	112,613
2028			
2029			
2030			
2031			
2032			
	<u>\$ 2,495,000</u>	<u>\$ 387,809</u>	<u>\$ 2,882,809</u>

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2018

UNLIMITED TAX REFUNDING BONDS
 SERIES - 2016

Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2019	\$ 145,000	\$ 54,296	\$ 199,296
2020	150,000	50,963	200,963
2021	150,000	47,573	197,573
2022	160,000	44,070	204,070
2023	165,000	40,398	205,398
2024	165,000	36,669	201,669
2025	175,000	32,827	207,827
2026	180,000	28,815	208,815
2027	185,000	24,690	209,690
2028	190,000	20,453	210,453
2029	195,000	16,103	211,103
2030	195,000	11,695	206,695
2031	205,000	7,176	212,176
2032	215,000	2,429	217,429
	<u>\$ 2,475,000</u>	<u>\$ 418,157</u>	<u>\$ 2,893,157</u>

See accompanying independent auditor's report.

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PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2018

ANNUAL REQUIREMENTS FOR ALL SERIES			
Due During Fiscal Years Ending July 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 485,000	\$ 194,390	\$ 679,390
2020	505,000	179,319	684,319
2021	520,000	162,779	682,779
2022	545,000	144,638	689,638
2023	575,000	124,554	699,554
2024	595,000	102,163	697,163
2025	625,000	77,817	702,817
2026	530,000	54,940	584,940
2027	560,000	33,597	593,597
2028	190,000	20,453	210,453
2029	195,000	16,103	211,103
2030	195,000	11,695	206,695
2031	205,000	7,176	212,176
2032	215,000	2,429	217,429
	\$ 5,940,000	\$ 1,132,053	\$ 7,072,053

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JULY 31, 2018

Description	Original Bonds Issued	Bonds Outstanding August 1, 2017
Paseo De La Resaca Municipal Utility District No. 3 Unlimited Tax Contract Revenue Bonds - Series 2003 ⁽¹⁾	\$ 3,200,000	\$ 970,000
Paseo De La Resaca Municipal Utility District No. 3 Unlimited Tax Contract Revenue Refunding Bonds - Series 2011 ⁽¹⁾	3,860,000	2,820,000
Paseo De La Resaca Municipal Utility District No. 3 Unlimited Tax Refunding Bonds - Series 2016 ⁽²⁾	<u>2,620,000</u>	<u>2,620,000</u>
TOTAL	<u>\$ 9,680,000</u>	<u>\$ 6,410,000</u>

Bond Authority:	Internal District Bonds
Amount Authorized by Voters	\$ 6,200,000
Amount Issued	<u>3,360,000</u>
Remaining to be Issued	<u>\$ 2,840,000</u>

(1) See also Note 8. The Master District may issue an unlimited amount of additional contract revenue bonds necessary to provide improvements and facilities pursuant to the terms of the Master District Contract, with the approval of the Commission. Participants would be responsible for the debt service on such bonds.

(2) See also Note 3.

See accompanying independent auditor's report.

Current Year Transactions				Paying Agent
Bonds Sold	Retirements		Bonds Outstanding July 31, 2018	
	Principal	Interest		
\$	\$	\$ 46,075	\$ 970,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	325,000	104,418	2,495,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	145,000	57,574	2,475,000	Branch Banking and Trust Company Charlotte, NC
\$ - 0 -	\$ 470,000	\$ 208,067	\$ 5,940,000	

Debt Service Fund cash, investments and cash with paying agent balances as of
July 31, 2018:

\$ 1,247,797

Average annual debt service payment (principal and interest) for remaining term
of all debt:

\$ 505,147

See Notes 3 and 8 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Maintenance Tax Revenues	\$ 81,761	\$ 51,285	\$ 25,667
Miscellaneous Revenues	519		
TOTAL REVENUES	<u>\$ 82,280</u>	<u>\$ 51,285</u>	<u>\$ 25,667</u>
EXPENDITURES			
Professional Fees	\$ 27,887	\$ 20,497	\$ 8,000
Purchased and Contracted Services	6,297		
Other	4,410	3,892	3,985
TOTAL EXPENDITURES	<u>\$ 38,594</u>	<u>\$ 24,389</u>	<u>\$ 11,985</u>
NET CHANGE IN FUND BALANCE	\$ 43,686	\$ 26,896	\$ 13,682
BEGINNING FUND BALANCE	53,460	26,564	12,882
ENDING FUND BALANCE	<u>\$ 97,146</u>	<u>\$ 53,460</u>	<u>\$ 26,564</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 20,194	\$ 19,160	99.4 %	100.0 %	100.0 %	100.0 %	100.0 %
		0.6				
<u>\$ 20,194</u>	<u>\$ 19,160</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 8,000	\$ 10,530	33.9 %	40.0 %	31.2 %	39.6 %	55.0 %
		7.7				
<u>5,922</u>	<u>4,402</u>	<u>5.4</u>	<u>7.6</u>	<u>15.5</u>	<u>29.3</u>	<u>23.0</u>
<u>\$ 13,922</u>	<u>\$ 14,932</u>	<u>47.0 %</u>	<u>47.6 %</u>	<u>46.7 %</u>	<u>68.9 %</u>	<u>78.0 %</u>
\$ 6,272	\$ 4,228	53.0 %	52.4 %	53.3 %	31.1 %	22.0 %
<u>6,610</u>	<u>2,382</u>					
<u>\$ 12,882</u>	<u>\$ 6,610</u>					

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Debt Service Tax Revenues	\$ 209,986	\$ 247,810	\$ 252,704
Contract Tax Revenues	579,840	550,872	592,017
Penalty and Interest	7,625	2,741	4,483
Miscellaneous Revenues	7,331	783	816
TOTAL REVENUES	<u>\$ 804,782</u>	<u>\$ 802,206</u>	<u>\$ 850,020</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 14,281	\$ 12,493	\$ 12,991
Contract Tax Obligation	148,087	135,467	154,358
Debt Service Principal	470,000	420,000	410,000
Debt Service Interest and Fees	210,142	248,620	302,733
Payment to Escrow Agent		130,000	
Bond Issuance Costs		66,182	
TOTAL EXPENDITURES	<u>\$ 842,510</u>	<u>\$ 1,012,762</u>	<u>\$ 880,082</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (37,728)</u>	<u>\$ (210,556)</u>	<u>\$ (30,062)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	\$	\$ 2,620,000	\$
Transfer to Escrow Agent		(2,547,852)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 72,148</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ (37,728)	\$ (138,408)	\$ (30,062)
BEGINNING FUND BALANCE	<u>1,307,958</u>	<u>1,446,366</u>	<u>1,476,428</u>
ENDING FUND BALANCE	<u>\$ 1,270,230</u>	<u>\$ 1,307,958</u>	<u>\$ 1,446,366</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 251,091	\$ 239,957	26.2 %	30.9 %	29.8 %	30.2 %	30.2 %
569,093	546,791	72.0	68.7	69.6	68.6	68.7
8,908	7,737	0.9	0.3	0.5	1.1	1.0
563	982	0.9	0.1	0.1	0.1	0.1
<u>\$ 829,655</u>	<u>\$ 795,467</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 13,321	\$ 11,664	1.8 %	1.6 %	1.5 %	1.6 %	1.5 %
148,702	143,555	18.4	16.9	18.2	17.9	18.0
395,000	160,000	58.4	52.4	48.2	47.6	20.1
316,037	558,793	26.1	31.0	35.6	38.1	70.2
			16.2			
			8.3			
<u>\$ 873,060</u>	<u>\$ 874,012</u>	<u>104.7 %</u>	<u>126.4 %</u>	<u>103.5 %</u>	<u>105.2 %</u>	<u>109.8 %</u>
<u>\$ (43,405)</u>	<u>\$ (78,545)</u>	<u>(4.7) %</u>	<u>(26.4) %</u>	<u>(3.5) %</u>	<u>(5.2) %</u>	<u>(9.8) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ (43,405)	\$ (78,545)					
<u>1,519,833</u>	<u>1,598,378</u>					
<u>\$ 1,476,428</u>	<u>\$ 1,519,833</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2018

District Mailing Address - Paseo De La Resaca Municipal Utility District No. 3
c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP
1980 Post Oak Boulevard, Suite 1380
Houston, TX 77056

District Telephone Number - (713) 850-9000

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended July 31, 2018	Expense Reimbursements for the year ended July 31, 2018	Title
Joe Baldwin	05/18 – 05/22 (Elected)	\$ 450	\$ -0-	President
Neel Fulghum	05/18 – 05/22 (Elected)	\$ 750	\$ -0-	Vice President
Louise Chosy	05/16 – 05/20 (Elected)	\$ 750	\$ -0-	Secretary
Robert Maza	05/16 – 05/20 (Elected)	\$ 150	\$ -0-	Assistant Secretary
Jon Waters	05/16 – 05/20 (Elected)	\$ 300	\$ -0-	Assistant Secretary

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
June 25, 2018

Limit on Fees of Office that a Director may receive during a fiscal year \$6,000 as set by Board Resolution (TWC Section 49.060) on August 29, 2001. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

PASEO DE LA RESACA MUNICIPAL UTILITY DISTRICT NO. 3
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended July 31, 2018</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn, LLP	01/27/10	\$ 19,366	General Counsel
McCall Gibson Swedlund Barfoot PLLC	07/14/99	\$ 8,500	Auditor
L&S District Services, LLC	07/20/10	\$ 6,297	Bookkeeper/ Investment Officer
Murfee Engineering Company	06/25/97	\$ 21	Engineer
Mejia & Rose, Inc.	06/25/97	\$ -0-	Engineer
Robert W. Baird & Co. Incorporated	06/22/15	\$ -0-	Financial Advisor
Michael Arterburn, RTA	07/20/10	\$ 1,200	Tax Consultant
Cameron County Tax Assessor/Collector	07/08/98	\$ 4,447	Tax Assessor/ Collector
Linebarger Goggan Blair & Sampson, LLP	07/08/98	\$ 2,575	Delinquent Tax Attorney

See accompanying independent auditor's report.