OFFICIAL STATEMENT DATED NOVEMBER 19, 2019

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

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

NEW ISSUE – Book-Entry Only

Rating: Moody's: "Baa2"
See "MUNICIPAL BOND RATING" herein.

$8,625,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 406
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX BONDS, SERIES 2019

Dated: December 1, 2019 **Due: September 1, as shown below**

Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar", "Paying Agent" or "Registrar") in Dallas, Texas. Interest on the Bonds will accrue from December 1, 2019 and be payable on March 1, 2020 and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds will be issued only in fully registered form. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as shown below.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS

Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number 41422J (b)	Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number 41422J (b)
2021	$ 205,000	4.000%	1.800%	JE3	2029	$ 295,000 (c)	3.000%	2.650%	JN3
2022	215,000	4.000%	1.850%	JF0	2030	310,000 (c)	3.000%	2.800%	JP8
2023	225,000	4.000%	1.900%	JG8	***				
2024	235,000	4.000%	2.000%	JH6	2034	365,000 (c)	3.000%	3.040%	JT0
2025	245,000	4.000%	2.150%	JJ2	2035	385,000 (c)	3.000%	3.080%	JU7
2026	260,000	4.000%	2.300%	JK9	2036	400,000 (c)	3.000%	3.120%	JV5
2027	270,000 (c)	2.000%	2.400%	JL7	2037	420,000 (c)	3.000%	3.160%	JW3
2028	280,000 (c)	3.000%	2.500%	JM5	2038	440,000 (c)	3.000%	3.180%	JX1

$1,005,000 Term Bonds due September 1, 2033 (c), 41422J JS2 (b), 3.000% Interest Rate, 3.000% Yield (a)
$1,435,000 Term Bonds due September 1, 2041 (c), 41422J KA9 (b), 3.000% Interest Rate, 3.200% Yield (a)
$1,635,000 Term Bonds due September 1, 2044 (c), 41422J KD3 (b), 3.125% Interest Rate, 3.250% Yield (a)

(a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from December 1, 2019, is to be added to the price.

(b) CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) Bonds maturing on and after September 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS - Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 406 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about December 18, 2019.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of duplication costs.

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

The Issuer .... Harris County Municipal Utility District No. 406 (the "District"), a political subdivision of the State of Texas, is located in Harris County, Texas. See "THE DISTRICT."

The Issue .... $8,625,000 Unlimited Tax Bonds, Series 2019 (the "Bonds") are issued pursuant to a resolution (the "Bond Resolution") of the District's Board of Directors. The Bonds will be issued as fully registered bonds maturing on September 1 in each of the years 2021 through 2030, both inclusive, and 2034 through 2038, both inclusive, and as term bonds on September 1 in the years 2033, 2041 and 2044 (the "Term Bonds") in the principal amounts and accruing interest at the rates shown on the cover hereof. Interest on the Bonds accrues from December 1, 2019, and is payable on March 1, 2020, and on each September 1 and March 1 thereafter until the earlier of maturity or prior redemption.

The Bonds maturing on and after September 1, 2027, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on September 1, 2026, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS –Redemption Provisions."

Book-Entry-Only System ... The Depository Trust Company, New York, New York ("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 requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."

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

Use of Proceeds .... Proceeds from the sale of the Bonds will be used to pay for items shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS," including developer interest, and to pay certain other costs and fees related to the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Payment Record................ The District has previously issued three series of unlimited tax road bonds, four series of unlimited tax bonds and one series of unlimited tax road refunding bonds, of which $47,460,000 in the aggregate principal amount remains outstanding as of October 1, 2019 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.

Qualified Tax-Exempt Obligations .... The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions.

Municipal Bond Rating .... Moody's Investors Service ("Moody's") has assigned a rating of "Baa2" (stable outlook) to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody's will be paid by the District.

Legal Opinion .... Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas.

Disclosure Counsel .... McCall, Parkhurst and Horton LLP, Houston, Texas.

Financial Advisor .... Post Oak Municipal Advisors LLC, Houston, Texas.

Engineer .... BGE, Inc., Houston, Texas.

Investment Considerations. The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment considerations, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

THE DISTRICT

Description .... The District was created by an act of the Legislature of the State of Texas on June 18, 2005, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District presently contains approximately 510 acres of land located in the northern portion of Harris County approximately 12 miles from downtown Houston, Texas. The District is located near the intersection of Beltway 8 North and Interstate Highway 45 and is bordered on the north by Beltway 8 North and bisected by Greens Crossing Boulevard and Plaza Verde Drive. The District lies entirely within the extraterritorial jurisdiction of the City of Houston, Texas ("Houston" or the "City"). See "THE DISTRICT" and "AERIAL PHOTOGRAPH" herein.

Status of Development .... The District is a portion of Pinto Business Park, which is located near the intersection of Interstate Highway 45 and Beltway 8 North. According to the Major Landowner (as defined herein), Pinto Business Park is planned to encompass approximately 1,126 acres of land at full development including commercial, industrial and warehouse usages. Approximately 510 acres are within the boundaries of the District, and approximately 616 acres are within the boundaries of the adjoining Harris County Municipal Utility District No. 321 ("MUD 321").

USEF RELP Houston, LLC has constructed an approximately 2,400,000 square foot distribution/warehouse facility on approximately 69 acres in the District which is leased and occupied by Amazon. The Amazon distribution facility opened in summer 2017.

The District also includes a 739,141 square foot Sysco Houston, Inc. ("Sysco Houston") warehouse, distribution, and office facility on approximately 54 acres in the District. The Sysco Houston facility, which opened in March 2010, is Sysco Houston's primary distribution center for southeast Texas and is located approximately six miles from Intercontinental Airport.

Five industrial warehouse/distribution buildings within the District are owned by Teachers Insurance and Annuity Association. The first building is a 608,784 square foot warehouse/distribution facility on approximately 29 acres, all of which is leased to HD Supply Facilities Maintenance ("HD Supply"). HD Supply is a distributor of maintenance, repair and operations products and services to owners and managers of multifamily, hospitality, educational and commercial properties, healthcare providers, and municipal and government facilities. The HD Supply facility is HD Supply's primary distribution center for Texas and Louisiana. The second and third buildings are 120,120 square feet each on a total of approximately 14 acres. Approximately 50% of the space is leased to two tenants: Red Bull North America and Cambria. The fourth building is 193,000 square feet on approximately 14 acres, of which approximately 110,000 square feet are being leased to three tenants. The fifth building is 504,000 square feet on approximately 32 acres, none of which is leased at this time.

Hines is currently constructing two distribution buildings, of 146,028 square feet and 358,567 square feet, respectively, on approximately 30 acres within the District. The buildings are scheduled to open in the second quarter of 2020. Hines has also constructed an approximately 600,000 square foot distribution warehouse facility as a build to suit for Emser Title on approximately 31 acres of land in the District.

The District also contains a 130,400 square foot distribution/warehouse facility occupied by The Reynolds Light Company on approximately 9 acres of land owned by Light Investments 2.0 LP.

Coca Cola Southwest Beverages LLC owns a total of approximately 146 acres of land in Pinto Business Park, of which approximately 30 acres are within the boundaries of the District and approximately 116 acres are within the boundaries of MUD 321. An approximately 869,731 square foot building is under construction and is expected to be complete in December 2019.

Buckeye Partners L.P. purchased 13.89 acres on the southwest corner of Fallbrook Drive and Ella Boulevard, of which approximately 10.6 acres are within the boundaries of the District and approximately 3.3 acres are within the boundaries of MUD 321. The 256,600 square foot building is anticipated to open in November 2019.

The District also contains approximately 45 undeveloped acres that are served with trunk utilities. Substantially all of such acreage is owned by the Major Landowner (as defined herein). There are no plans for development on such acreage at this time. Approximately 141 acres of land are contained in right-of-ways, easements, lift station sites, detention facilities, and open spaces. See "THE DISTRICT—Status of Development."

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

According to the District's Engineer, the System (as defined herein) did not sustain any material damage, there was no interruption of water and sewer service, and no commercial or industrial properties within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected. See “INVESTMENT CONSIDERATIONS – Severe Weather.”

Principal Taxpayers .... Based upon the 2019 certified tax rolls, the three largest principal taxpayers are responsible for payment of 67.31% of the District’s property taxes. The largest taxpayer is Amazon.com Services Inc. (“Amazon”) which is responsible for approximately 29.58% of the District’s 2019 taxes levied on approximately $211,208,237 in taxable property value consisting of personal property. The second largest taxpayer is USEF RELP Houston, LLC which is responsible for approximately 21.01% of the District’s 2019 taxes levied on approximately $150,015,808 in taxable property value consisting of an approximately 2,400,000 square foot distribution/warehouse facility which is occupied and leased by Amazon. The third largest taxpayer is SYSCO Houston which is responsible for approximately 16.73% of the District’s 2019 taxes levied on approximately $119,435,094 in taxable property value. See “THE DISTRICT—Status of Development,” “PRINCIPAL PROPERTY OWNERS” and “TAX DATA—Principal Taxpayers.”

Major Landowners .... Pinto Realty Development, Inc., a Texas corporation (“Pinto Realty” or the “Major Landowner”) is the owner of approximately 45 undeveloped acres of land in the District that are served with trunk utilities. There are no plans for development on such acreage at this time. Pinto Realty has entered into a Master Financing Agreement with the District to provide financing for construction of utilities, park and recreation facilities, and roads. Pinto Realty is marketing the land for commercial and industrial uses. See “PRINCIPAL PROPERTY OWNERS” and “TAX DATA—Principal Taxpayers.”

Strategic Partnership Agreement......................... In 2007, the District entered into a Strategic Partnership Agreement (“SPA”) with the City, as authorized by Texas Local Government Code, Chapter 43. Under the SPA, the City made a “limited purpose annexation” of all of the land in the District for the purpose of applying the City sales tax and fireworks ban within the District. The SPA also provides that the City will not annex the District for “full purposes” (a traditional municipal annexation) until the following conditions are met: 1) at least 90% of the District’s water, wastewater treatment, and drainage facilities have been developed or the SPA has been in effect for 30 years, whichever comes earlier, and 2) the developer(s) developing water, wastewater treatment, and drainage facilities have been reimbursed by the District to the maximum extent allowed by the rules of the Texas Commission on Environmental Quality (“TCEQ”) or the City assumes any obligation for such reimbursement by the District under the TCEQ rules. See “THE BONDS—Strategic Partnership Agreement.”

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION

2019 Taxable Assessed Valuation	$714,057,711	(a)
Gross Debt Outstanding (after issuance of the Bonds)	$56,085,000	
Estimated Overlapping Debt	33,179,595	(b)
Gross Debt and Estimated Overlapping Debt	$89,264,595	
Ratio of Gross Debt to:		
2019 Taxable Assessed Valuation	7.85%	
Ratio of Gross Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation	12.50%	
Fund Balances Available as of October 15, 2019:		
Operating Fund	$4,658,377	
Water, Sewer and Drainage Capital Projects Fund	$417,786	(c)
Water, Sewer and Drainage Debt Service Fund	$380,157	(d)
Road Debt Service Fund	$705,367	(d)
2019 Tax Rate:		
Debt Service	$0.75	
Maintenance and Operations	0.15	
Total	$0.90	
Average Annual Debt Service Requirements (2020-2044) of the Bonds and the Outstanding Bonds ("Average Requirement")	$3,234,384	
Tax rate required to pay Average Requirement based upon: 2019 Taxable Assessed Valuation at a 95% collection rate	$0.48 /$100 A.V.	
Maximum Annual Debt Service Requirements (2021) of the Bonds and the Outstanding Bonds ("Maximum Requirement")	$4,058,320	
Tax rate required to pay Maximum Requirement based upon: 2019 Taxable Assessed Valuation at a 95% collection rate	$0.60 /$100 A.V.	

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
(b) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
(c) Includes $400,000 in surplus funds to be applied towards projects to be financed by the Bonds.
(d) Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Funds. Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue is allocated to bonds sold for road facilities (the "Road Bonds"), and a portion is allocated to bonds sold for water, sewer and drainage facilities, including the Bonds (the "Water, Sewer and Drainage Bonds"). See "FINANCIAL STATEMENT (UNAUDITED)—Outstanding Bonds." The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds and the Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds.

OFFICIAL STATEMENT

$8,625,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 406
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX BONDS, SERIES 2019

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 406 (the "District") of its $8,625,000 Unlimited Tax Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas regarding the issuance of bonds by political subdivisions of the State of Texas, an election held in the District, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and an order of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District and the development of land within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District upon payment of the costs of duplication therefor.

THE BONDS

General

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution of the Board authorizing the issuance and sale of the Bonds. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated and accrue interest from December 1, 2019, which interest is payable on March 1, 2020 and on each September 1 and March 1 thereafter, until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the amounts and years and bear interest at the rates shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

The Bonds will be issued in fully registered form in denominations of $5,000 or integral multiples thereof.

Authority for Issuance

At a bond election held within the District on November 7, 2006, the voters of the District authorized the issuance of a total of $102,850,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds are being issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution; an Order of the Commission; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; an election held within the District and the general laws of the State of Texas regarding the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas. Interest on each Bond shall be payable by check or draft payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owners as shown on the Register on the fifteenth (15th) day (whether or not a business day) of the month prior to each interest payment date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed to by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

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

Source of and Security for Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any future bonds payable in whole or in part from taxes, with full allowance being made for delinquencies and costs of collection.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Houston, Texas (the "City" or "Houston") or any entity other than the District.

Funds

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

The District also maintains a Road Debt Service Fund that is not pledged to the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds.

Accrued interest on the Bonds shall be deposited into the Water, Sewer and Drainage Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds, including interest earnings thereon, shall be deposited into the Water, Sewer and Drainage Capital Projects Fund to pay the costs of acquiring or constructing District water, sanitary sewer, and drainage facilities and for paying the costs of issuing the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds.

No Arbitrage

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

Record Date

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

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in the years 2033, 2041 and 2044, (the "Term Bonds") shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced, at the option of the District, by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

$1,005,000 Term Bonds Due September 1, 2033		$1,435,000 Term Bonds Due September 1, 2041		$1,635,000 Term Bonds Due September 1, 2044	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2031	$ 320,000	2039	$ 455,000	2042	$ 520,000
2032	335,000	2040	480,000	2043	545,000
2033 (maturity)	350,000	2041 (maturity)	500,000	2044 (maturity)	570,000

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of $5,000, on September 1, 2026, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

Registration and Transfer

The Bank of New York Mellon Trust Company, N.A. is the initial paying agent/registrar (the "Paying Agent/Registrar," "Paying Agent" or "Registrar") for the Bonds. So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution. While the Bonds are in the book-entry-only system, the Bonds will be registered in the name of Cede & Co. and will only be transferred in accordance with the procedures described herein under "BOOK-ENTRY-ONLY SYSTEM."

Replacement of Paying Agent/Registrar

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

Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, stolen or destroyed, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding. Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

After issuance of the Bonds, the District will have $57,985,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of acquiring and constructing water, sanitary sewer, and drainage facilities, $35,215,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of acquiring and constructing roads, $20,000,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of acquiring and constructing park and recreational facilities, and $172,775,000 principal amount of unlimited tax bonds for refunding outstanding bonds of the District. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "USE AND DISTRIBUTION OF BOND PROCEEDS—Future Debt" and "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District has prepared a detailed park plan and voters in the District authorized the issuance of $20,000,000 principal amount of unlimited tax bonds for park and recreational facilities. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park projects and bonds by the Commission; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

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

Issuance of additional bonds could dilute the investment security for the Bonds.

Annexation by the City of Houston

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

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

Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (the "SPA") with the City, effective November 14, 2007, pursuant to Chapter 43, Texas Local Government Code. The SPA provides for a "limited purpose annexation" of all the land in the District. The SPA also provides that the City will not annex the District for "full purposes" until the following conditions have been met: 1) at least 90% of the District's water, wastewater treatment, and drainage facilities have been developed or the SPA has been in effect for 30 years, whichever comes earlier, and 2) the developer(s) developing water, wastewater treatment, and drainage facilities have been reimbursed by the District to the maximum extent allowed by the rules of the TCEQ or the City assumes any obligation for such reimbursement by the District under the rules.

Under the SPA, the City is authorized to impose the one percent (1%) City retail sales tax in the District. The SPA also provides that the City will pay to the District an amount equal to one-half of all City retail sales tax revenues generated within such area of the District and received by the City from the Texas Comptroller of Public Accounts.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. With respect to the Bonds, one fully-registered Bond certificate will be issued of each such series for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency'' registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating from S&P Global Ratings of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

THE DISTRICT

General

Harris County Municipal Utility District No. 406 (the "District") is a municipal utility district created by an act of the Legislature of the State of Texas on June 18, 2005 and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas ("Houston" or the "City").

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities and for the construction, operation and maintenance of macadamized, graveled or paved roads and turnpikes. The District is also empowered to establish parks and recreational facilities, to contract for or employ its own peace officers and, after approval by the Commission and the voters of the District, to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, roads, parks and recreational facilities, and firefighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of the District's system are subject to the regulatory jurisdiction of additional government agencies. See "WATER SUPPLY AND WASTEWATER TREATMENT."

The District includes approximately 510 acres of land. The District is located approximately 12 miles north of the central downtown business district of the City near the intersection of Interstate Highway 45 and Beltway 8 North. The District lies wholly within the extraterritorial jurisdiction of the City and the boundaries of Aldine Independent School District. See "AERIAL PHOTOGRAPH" herein.

Status of Development

The District is a portion of Pinto Business Park, which is located near the intersection of Interstate Highway 45 and Beltway 8 North. According to the Major Landowner (as defined herein), Pinto Business Park is planned to encompass approximately 1,126 acres of land at full development including commercial, industrial and warehouse usages. Approximately 510 acres are within the boundaries of the District, and approximately 616 acres are within the boundaries of the adjoining Harris County Municipal Utility District No. 321 ("MUD 321").

USEF RELP Houston, LLC has constructed an approximately 2,400,000 square foot distribution/warehouse facility on approximately 69 acres in the District which is leased and occupied by Amazon. The Amazon distribution facility opened in summer 2017.

The District also includes a 739,141 square foot Sysco Houston, Inc. ("Sysco Houston") warehouse, distribution, and office facility on approximately 54 acres in the District. The Sysco Houston facility, which opened in March 2010, is Sysco Houston's primary distribution center for southeast Texas and is located approximately six miles from Intercontinental Airport.

Five industrial warehouse/distribution buildings within the District are owned by Teachers Insurance and Annuity Association. The first building is a 608,784 square foot warehouse/distribution facility on approximately 29 acres, all of which is leased to HD Supply Facilities Maintenance ("HD Supply"). HD Supply is a distributor of maintenance, repair and operations products and services to owners and managers of multifamily, hospitality, educational and commercial properties, healthcare providers, and municipal and government facilities. The HD Supply facility is HD Supply's primary distribution center for Texas and Louisiana. The second and third buildings are 120,120 square feet each on a total of approximately 14 acres. Approximately 50% of the space is leased to two tenants: Red Bull North America and Cambria. The fourth building is 193,000 square feet on approximately 14 acres, of which approximately 110,000 square feet are being leased to three tenants. The fifth building is 504,000 square feet on approximately 32 acres, none of which is leased at this time.

Hines is currently constructing two distribution buildings, of 146,028 square feet and 358,567 square feet, respectively, on approximately 30 acres within the District. The buildings are scheduled to open in the second quarter of 2020. Hines has also constructed an approximately 600,000 square foot distribution warehouse facility as a build to suit for Emser Title on approximately 31 acres of land in the District.

The District also contains a 130,400 square foot distribution/warehouse facility occupied by The Reynolds Light Company on approximately 9 acres of land owned by Light Investments 2.0 LP.

Coca Cola Southwest Beverages LLC owns a total of approximately 146 acres of land in Pinto Business Park, of which approximately 30 acres are within the boundaries of the District and approximately 116 acres are within the boundaries of MUD 321. An approximately 869,731 square foot building is under construction and is expected to be complete in December 2019.

Buckeye Partners L.P. purchased 13.89 acres on the southwest corner of Fallbrook Drive and Ella Boulevard, of which approximately 10.6 acres are within the boundaries of the District and approximately 3.3 acres are within the boundaries of MUD 321. The 256,600 square foot building is anticipated to open in November 2019.

The District also contains approximately 45 undeveloped acres that are served with trunk utilities. Substantially all of such acreage is owned by the Major Landowner (as defined herein). There are no plans for development on such acreage at this time. Approximately 141 acres of land are contained in right-of-ways, easements, lift station sites, detention facilities, and open spaces. See "INVESTMENT CONSIDERATION."

MANAGEMENT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Each of the five Directors owns a small parcel of land in the District subject to a Note and Deed of Trust in favor of the Major Landowner. Directors are elected by the voters within the District for four-year staggered terms. Director elections are held only in even numbered years. The Directors and Officers of the District are listed below:

Name	District Board Title	Term Expires
Bruce Arendale	President	May 2022
Charles Garibay	Vice President	May 2022
David E. Stevenson	Secretary	May 2020
Victor Crosswell	Assistant Vice President	May 2020
Judd Harrison	Assistant Secretary	May 2020

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

Tax Assessor/Collector

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

Bookkeeper

The District has engaged District Data Services, Inc. to serve as the District's bookkeeper.

System Operator

The District contracts with Hays Utility South Corporation for maintenance and operation of the District's system.

Engineer

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

Attorney

The District has engaged Allen Boone Humphries Robinson LLP as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Financial Advisor

Post Oak Municipal Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon sale and delivery of the Bonds.

Auditor

The financial statements of the District as of September 30, 2018, and for the year then ended, included in this Official Statement have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's September 30, 2018 audited financial statements.

PRINCIPAL PROPERTY OWNERS

General

The following is a brief description of the largest property owners in the District. See "INVESTMENT CONSIDERATIONS —Dependence on Principal Taxpayers" and "TAX DATA—Principal Taxpayers."

Pinto Realty Development, Inc.

Pinto Realty Development, Inc., a Texas corporation ("Pinto Realty" or the "Major Landowner") is the owner of substantially all of the undeveloped land in the District. Pinto Realty has entered into a Master Financing Agreement with the District to provide financing for construction of utilities, roads, and parks and recreational facilities. Pinto Realty is marketing the land for commercial and industrial uses.

Prospective Bond purchasers should note that the prior real estate experience of Pinto Realty should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "INVESTMENT CONSIDERATIONS."

Amazon.com Services Inc.

Amazon.com Services Inc. ("Amazon") is the largest taxpayer within the District. According to the District's 2019 certified tax rolls, Amazon is responsible for approximately 29.58% ($211,208,237) of the 2019 tax roll. Amazon is wholly owned by Amazon.com, Inc., a publicly traded company, the stock of which is listed on the Nasdaq Stock Market. See "TAX DATA—Principal Taxpayers."

USEF RELP Houston, LLC

The second largest taxpayer is USEF RELP Houston, LLC which is responsible for approximately 21.01% of the District's 2019 taxes levied on approximately $150,015,808 in taxable property value consisting of an approximately 2,400,000 square foot distribution/warehouse facility which is occupied and leased by Amazon. See "THE DISTRICT— Status of Development".

SYSCO Houston, Inc.

Sysco Houston, Inc. ("Sysco Houston") is the third largest taxpayer within the District. Sysco Houston owns a 739,141 square foot warehouse, distribution, and office facility on approximately 54 acres in the District. According to the District's 2019 certified tax rolls, Sysco Houston is responsible for approximately 16.05% of the 2019 tax roll. Sysco Houston is wholly owned by Sysco Corp. ("Sysco"), a publicly held company, the stock of which is listed on the New York Stock Exchange. See "TAX DATA—Principal Taxpayers."

Teachers Insurance and Annuity Association

Teachers Insurance and Annuity Association ("TIAA") is the fourth largest taxpayer within the District. TIAA owns five industrial warehouse distribution buildings on approximately 89 acres in the District consisting of (1) a 600,000 square foot warehouse/ distribution facility, all of which is leased to HD Supply Facilities Maintenance, (2) two 150,000 square foot buildings of which 50% is leased to Red Bull North America and Cambria, (3) a 193,000 square foot building of which 110,000 square feet are leased to three tenants, and (4) a 550,400 square foot building, which is currently vacant. According to the District's 2019 certified tax rolls, TIAA is responsible for approximately 16.05% of the 2019 tax roll.

THE ROAD SYSTEM

Two major thoroughfares, Fallbrook Drive and Ella Boulevard, currently exist within the District's boundaries. Two major collector streets, Greens Crossing Boulevard and Pinto Business Park Drive, lie within the boundaries of the District. All four roadways are included on the City's and/or Harris County's thoroughfare plan. Greens Crossing Boulevard, Ella Boulevard and Fallbrook Drive have been accepted for ownership, operation, and maintenance by Harris County.

These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer and drainage facilities are also located within the right-of-way. The right-of-way is also shared by street lights, sidewalks and franchise utilities (power, gas, telephone and cable).

WATER SUPPLY AND WASTEWATER TREATMENT

Regulation

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

Water Supply

Water supply for the development within the District is provided by the City of Houston's integrated water system. Pursuant to a Treated Water Supply Contract ("Water Supply Contract") between the City of Houston, MUD 321, and the District, dated July 20, 2011, MUD 321 has paid impact fees to reserve capacity of 60 million gallons per month on behalf of itself and the District. Pursuant to the First Amendment to Treated Water Supply Contract (the "First Amendment") between the City, MUD 321 and the District, dated January 20, 2017, the District and MUD 321 may reserve an additional 66 million gallons per month of water capacity through the payment of impact fees to the City and/or the funding of design and construction of certain City facilities. The monthly quantity currently used by the District and MUD 321 is approximately 11.9 million gallons per month. However, the District is not guaranteed any specific quantity or pressure of water whenever Houston's water supply is limited or when Houston's equipment may become inoperative because of unforeseen breakdown or scheduled maintenance and repairs. To help alleviate potential City of Houston water supply issues, a water repressurization plant has been constructed within MUD 321 to serve both the District and MUD 321. Water from the City of Houston supply line enters ground storage tanks, is then pressurized by booster pumps and is distributed throughout the District and MUD 321. The District's and MUD 321's current capacity allocation is capable of serving approximately 2,315 equivalent single-family connections, and the District and MUD 321 are currently serving approximately 968 equivalent single-family connections. According to the Water Supply Contract and the First Amendment, the District is authorized to increase or decrease its minimum monthly quantity at any time during the contract term subject to the total monthly limitation not exceeding 126 million gallons per month. See "Water and Wastewater Contracts" below.

Surface Water Conversion: The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. Because the District is served by the City with water, the District has no potable water well subject to the regulation of the Subsidence District.

Wastewater Treatment

Wastewater treatment for the development within the District's boundaries is provided by two wastewater treatment plants (the "Plants") owned and operated by the City of Houston. Pursuant to a Sanitary Sewer Service Agreement between the City of Houston, MUD 321 and the District, dated December 13, 2010, the District and MUD 321 are provided with up to 1,550,000 gallons per day of wastewater treatment capacity. According to the District's Engineer, the wastewater treatment plants are committed to serve approximately 5,166 equivalent single-family connections within the District and MUD 321, and the District and MUD 321 are currently serving approximately 968 equivalent single family connections. These amounts have been provided by the Engineer and are based upon the most recent data available for the Plants but such amounts have not been verified by the City of Houston. See "Water and Wastewater Contracts" below.

Pursuant to the First Amendment to Sanitary Sewer Service Agreement between the City, MUD 321, and the District, dated December 19, 2018, the District and MUD 321 have implemented the City's multijurisdictional wastewater pretreatment program within the Districts to ensure that industrial users located in the Districts are subject to the City's permitting and enforcement requirements applicable to users proposing to discharge non-domestic waste into the Districts' sanitary sewer system.

Two lift stations and one regional lift station have been constructed within MUD 321 and serve all of MUD 321 and a portion of the District by pumping wastewater to the City of Houston Imperial Valley Wastewater Treatment Plant. Within the District, two lift stations have been constructed and serve only the District by pumping wastewater to the former Harris County MUD 203 Wastewater Treatment Plant.

Water and Wastewater Contracts

Under the current water supply contract with the City of Houston, the District is required to design and construct, at its sole expense, all facilities necessary to enable it to receive water from the City at the agreed upon points of delivery. Under the current wastewater treatment contract, the District is required to design and construct, at its sole expense, all of the wastewater collection facilities necessary to enable it to deliver wastewater for treatment to the City's sanitary sewer system at the agreed upon points of discharge.

Under the District's current water supply and wastewater treatment contracts with the City of Houston, the City provides wholesale water and sewer service to the District and the District charges its customers at its then current water and sewer rates. The District's current water supply contract with the City is for a term of 40 years, ending in 2051. The District's current wastewater treatment contract with the City will remain in full force and effect until superseded by the City's new form of such agreement.

Drainage

Internal storm-water collection lines have been constructed for drainage system improvements to serve the District's development. The District's storm drainage collection system consists of curbs and gutters with inlets and reinforced concrete storm sewers. This system serves the entire District's drainage area and conveys flows to several storm water detention basins owned and maintained by the District. The detention basins are designed to ultimately drain to Greens Bayou.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. According to the Engineer, no land in the District is located within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS - Severe Weather."

USE AND DISTRIBUTION OF BOND PROCEEDS

The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, $7,858,284 is estimated for construction costs, $280,301 is estimated for non-construction costs and $486,415 is estimated for issuance costs and fees.

I. CONSTRUCTION COSTS	
Developer Contribution Items	
• Gillespie Road Drainage Improvements	$ 227,177
• Pinto Business Park Reserve on Ella	25,059
• Material Testing	1,262
• Storm Water Pollution Prevention Plan (Items 1 and 2)	3,353
• Geotechnical Engineering Report	26,365
Developer Contribution Items Subtotal	**$ 283,216**
District Items	
• Water Plant No. 1 Phase 2 Well and Booster Pumps	$ 951,480
• Water Plant No. 1 Phase 2 Ground Storage	807,120
• Regional Lift Station No. 1 Improvements	19,842
• Water Plant No. 2 Improvements	4,477,968
• Detention Ponds 8 and 9 Phase 2 Improvements	1,285,550
• Engineering, Material Testing, and Storm Water Pollution Prevention Plan for for Detention Pond No. 3	33,394
• Geotechnical Engineering Reports	8,141
• Land Acquisition Water Plant No. 2	345,600
• City of Houston Water Impact Fee (136 units)	45,973
Total District Contribution Items	**$ 7,975,068**
Total Construction Costs	**$ 8,258,284**
Less Surplus Funds	**$ (400,000)**
Total Net Construction Cost (91.11% of BIR)	**$ 7,858,284**
II. NON-CONSTRUCTION COSTS	
• Developer Interest	$ 21,551
• Bond Discount	163,396
• Contingency (a)	95,354
Total Non-Construction Costs	**$ 280,301**
III. ISSUANCE COSTS AND FEES	
• Issuance Costs and Professional Fees	$ 416,227
• Regulatory Fees	30,188
• Bond Application Report	40,000
Total Issuance Costs and Fees	**$ 486,415**
TOTAL BOND ISSUE	**$ 8,625,000**

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for authorized purposes.

(a) Represnts the difference between the estimated and the actual Bond Discount.

Future Debt

The Major Landowner has financed the land, engineering and construction costs of underground utilities and roads to serve the District, as well as certain other District improvements. After reimbursement from sale of the Bonds, the Major Landowner will have expended approximately $1,000,000 (as of October 9, 2019) for construction and acquisition of District utilities, park and recreational facilities and roadways not yet reimbursed. Additionally, pursuant to an interlocal agreement between the District and MUD 321, the District owes MUD 321 approximately $20,000 for engineering expenses incurred by MUD 321 on behalf of the District. It is anticipated that proceeds from future issues of District bonds will be used, in part, to reimburse the Major Landowner and MUD 321, respectively, for these costs to the extent allowed by the Commission, including payments to the City of Houston for the right to use additional capacity in the City's water supply and wastewater treatment facilities, if applicable. It is anticipated that additional bonds will be issued to finance the construction of facilities to serve the undeveloped acreage in the District. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District's authorized but unissued bonds will be adequate, under present land use projections, to finance such improvements.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Amount Unissued
11/7/2006	Water, Sanitary Sewer and Drainage	$102,850,000	$44,865,000 *	$57,985,000
11/7/2006	Road Bonds	$50,600,000	$15,385,000	$35,215,000
11/7/2006	Park Bonds	$20,000,000	$0	$20,000,000
11/7/2006	Refunding Bonds	$173,000,000	$225,000	$172,775,000

*Includes the Bonds.

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FINANCIAL STATEMENT (UNAUDITED)

2019 Taxable Assessed Valuation…………………………………………………………………	$714,057,711 (a)
District Debt:	
Outstanding Bonds (as of October 15, 2019)…………………………………………………	$47,460,000
The Bonds…………………………………………………………………………………………	8,625,000
Gross Debt Outstanding (after issuance of the Bonds)……………………………………………	$56,085,000
Ratio of Gross Debt to 2019 Taxable Assessed Valuation…………………………………………	7.85%

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

Cash and Investment Balances (unaudited as of October 15, 2019)

Operating Fund	Cash and Temporary Investments	$4,658,377	
Water, Sewer and Drainage Capital Projects Fund	Cash and Temporary Investments	$417,786	(a)
Water, Sewer and Drainage Debt Service Fund	Cash and Temporary Investments	$380,157	(b)
Road Debt Service Fund	Cash and Temporary Investments	$705,367	(b)

(a) Includes $400,000 in surplus funds to be applied towards projects to be financed by the Bonds.
(b) Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Debt Service Funds. Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue is allocated to bonds sold for road facilities (the "Road Bonds"), and a pro rata portion is allocated to bonds sold for water, sewer and drainage facilities including the Bonds (the "Water, Sewer and Drainage Bonds"). See "FINANCIAL STATEMEMT (UNAUDITED)—Outstanding Bonds." The Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds and the Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds.

Outstanding Bonds (as of October 15, 2019)

Series		Original Principal Amount	Principal Amount Outstanding as of October 15, 2019
2014	(a)	9,130,000	8,070,000
2016		6,850,000	6,100,000
2017		8,890,000	8,190,000
2017	(b)	2,615,000	2,535,000
2017A	(a)	2,915,000	2,715,000
2018		15,570,000	14,920,000
2018A		4,930,000	4,930,000
			$47,460,000

(a) Unlimited Tax Road Bonds.
(b) Unlimited Tax Road Refunding Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Harris County (a)………………………………	$2,042,497,125	09/30/19	0.12%	$2,450,997
Harris County Department of Education……	6,320,000	09/30/19	0.12%	7,584
Harris County Flood Control District……….	83,075,000	09/30/19	0.12%	99,690
Harris County Hospital District………………	57,300,000	09/30/19	0.12%	68,760
Aldine Independent School District…………	1,052,075,000	09/30/19	2.66%	27,985,195
Port of Houston Authority……………………	593,754,397	09/30/19	0.12%	712,505
Lone Star College System District………….	579,645,000	09/30/19	0.32%	1,854,864
Total Estimated Overlapping Debt				$33,179,595
The District…………………………………….	56,085,000 (b)	current	100.00%	56,085,000
Total Direct and Estimated Overlapping Debt…………				$89,264,595
Ratio of Total Direct and Estimated Overlapping Debt to:				
2019 Taxable Assessed Valuation…………				12.50%

(a) Harris County Toll Road Authority Bonds are considered self-supporting.
(b) Includes the Bonds.

Overlapping Tax Rates for 2018 (a)

	2018 Tax Rate per $100 of Taxable Assessed Valuation
Harris County………………………………………………………	$ 0.418580
Harris County Department of Education………………………….	0.005190
Harris County Flood Control District……………………………...	0.028770
Harris County Hospital District……………………………………..	0.171080
Port of Houston Authority…………………………………………..	0.011550
Aldine Independent School District……………………………….	1.435888
Harris County Emergency Services District No. 1………………….	0.100000
Harris County Emergency Services District No. 17…………………	0.100000
North Houston District……………………………………………….	0.167420
Lone Star College System District………………………………….	0.107800
Total Overlapping Tax Rate…………………………………………...	$ 2.546278
The District……………………………………………………………...	0.900000 (b)
Total Tax Rate…………………………………………………………….	$ 3.446278

(a) 2019 tax rates have not been adopted by all entities in Harris County.
(b) Represents the District's 2019 tax rate.

TAX DATA

Tax Collections

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

Tax Year	Net Certified Taxable Valuation	Tax Rate	Total Tax Levy	Total Collections As of September 30, 2019 Amount	Percent
2014	$ 100,258,981	$ 1.05	$ 1,052,719	$ 1,052,719	100.00%
2015	169,228,865	1.05	1,776,903	1,776,903	100.00%
2016	222,144,276	1.05	2,332,515	2,332,515	100.00%
2017	331,365,363	1.05	3,479,336	3,479,336	100.00%
2018	605,112,763	1.00	6,051,128	6,051,128	100.00%
2019	714,057,711	0.90	6,426,519	*(In Process of Collection)*	

Taxes are due when billed and become delinquent if not paid before February 1 of the year following the year in which imposed. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	2019	2018	2017	2016	2015	2014
Debt Service	$0.75	$0.60	$0.80	$0.60	$0.60	$0.75
Maintenance and Operations	0.15	0.40	0.25	0.45	0.45	0.30
Total	$0.90	$1.00	$1.05	$1.05	$1.05	$1.05

Tax Rate Limitations

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

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds or the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. For the 2019 tax year, the Board has levied a debt service tax rate in the amount of $0.75 per $100 taxable assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. Pursuant to an election held on November 7, 2006, the Board was authorized to levy such a maintenance tax in an amount not to exceed $1.50 per $100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. For the 2019 tax year, the Board has levied a maintenance tax rate in the amount of $0.15 per $100 taxable assessed valuation. The District has not held a road maintenance tax election or levied a tax for road maintenance.

Tax Exemptions

As discussed in the section titled “TAX PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. The Major Landowner has executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions or any other type of exemption or valuation for the property it owns within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

Additional Penalties

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

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 certified tax rolls, which reflects ownership at January 1, 2019. According to Harris County Appraisal District’s records, approximately 55.67% ($397,532,449) of the 2019 Taxable Assessed Valuation ($714,057,711) is attributable to personal property.

Taxpayer	Type of Property	2019 Certified Assessed Valuation	% of 2019 Certified Assessed Valuation
Amazon.com Services Inc.	Personal Property	$211,208,237	29.58%
USEF RELP Houston, LLC	Land and Improvements	150,015,808	21.01%
SYSCO Houston	Land/ Improvements/ Personal Property	119,435,094	16.73%
Teachers Insurance & Annuity	Land and Improvements	114,641,353	16.05%
10433 Ella Boulevard LLC	Land and Improvements	49,400,000	6.92%
Emser Tile & Natural Stone	Personal Property	15,528,778	2.17%
Light Investments 2.0 LP	Land and Improvements	13,275,000	1.86%
HD Supply Facilities Maintenance Ltd	Personal Property	12,341,267	1.73%
Pinto Reality Dev. INC. (a)	Land	7,101,464	0.99%
Coca Cola Southwest Beverages LLC	Land and Improvements	5,241,111	0.73%
Total for Principal Taxpayers		$ 698,188,112	97.78%

(a) Major Landowner. See “PRINCIPAL PROPERTY OWNERS.”

Summary of Assessed Valuation

The following summary of the 2019, 2018, 2017, and 2016 taxable assessed valuation is provided by the District's Tax Assessor/Collector based on information contained in the 2019, 2018, 2017, and 2016 tax rolls of the District. According to Harris County Appraisal District's records, approximately 55.67% ($397,532,449) of the certified assessed valuation as of January 1, 2019 ($714,057,711) is attributable to personal property. Differences in totals from others shown in this Official Statement are due to differences in dates of the data.

	2019	2018	2017	2016
Land	$72,428,995	$76,007,628	$74,298,287	$54,526,193
Improvements	350,885,120	291,170,392	179,074,111	88,391,169
Personal Property	397,532,449	312,823,993	94,936,078	89,122,452
Exempt Property	(106,788,853)	(74,889,250)	(16,943,113)	(9,895,538)
Total Assessed Valuation	$714,057,711	$605,112,763	$331,365,363	$222,144,276

Tax Adequacy for Debt Service

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

Average annual debt service requirement (2020-2044)………………………………………………… $3,234,384

$0.48 tax rate on the 2019 Taxable Assessed Valuation
of $714,057,711 at a 95% collection rate produces……………………………………………………… $3,256,103

Maximum annual debt service requirement (2021)……………………………………………………… $4,058,320

$0.60 tax rate on the 2019 Taxable Assessed Valuation
of $714,057,711 at a 95% collection rate produces……………………………………………………… $4,070,129

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TAX PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS -Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully herein under "THE BONDS-Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See "TAX DATA."

Property Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

Property Subject to Taxation by the District

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

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $5,000 and $12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than $5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See "TAX DATA."

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

Tax Abatement

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

On June 28, 2016, the Harris County Commissioners Court voted to designate approximately 72 acres within the District as a reinvestment zone. On the same date, the Harris County Commissioner's Court voted to approve a tax abatement agreement, effective January 1, 2017, with the owner of the property within the zone. The tax abatement agreement provides for abatement of a certain percentage of Harris County ad valorem taxes for a certain period of time, subject to certain conditions. The District is not a party to the tax abatement agreement and has no plans to enter into a similar agreement for the abatement of District ad valorem taxes.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

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

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

Reappraisal of Property after Disaster

The Property Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. The District did not authorize reappraisal following Hurricane Harvey.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

Special Taxing Units:

Special Taxing Units that adopt a total tax rate that would impose more than1.08 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 than1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts:

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

The District:

A determination as to a district’s status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District’s Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of such other taxing units. See “ESTIMATED OVERLAPPING DEBT STATEMENT-Overlapping Tax Rates for 2018.” A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under “Levy and Collection of Taxes.” In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See “INVESTMENT CONSIDERATIONS —Tax Collection Limitations.”

Tax Payment Installments after Disaster

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

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WATER AND SEWER OPERATIONS

General

The Bonds and the Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds and the Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Outstanding Bonds, at the discretion and upon action of the Board. It is not anticipated that significant revenues, if any, will be available for the payment of debt service on the Bonds and the Outstanding Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the audited financial statements in the case of the fiscal years ended 2014 through 2018 and from the District's bookkeeper for the year ended September 30, 2019. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended September 30					
	2019 (a)	2018	2017	2016	2015	2014
Revenues:						
Property Taxes	$ 2,502,985	$ 861,679	$ 961,623	$ 798,423	$ 320,097	$ 603,575
Sales Tax Revenue	261,535	310,069	417,132	1,342,790 (b)	-	-
Water Service	145,658	204,063	158,340	106,248	324,323	242,194
Sewer Service	79,371	95,447	84,373	49,006	386,381	224,306
Penalty and Interest	4,074	6,785	2,562	3,699	344	1,395
Tap Connection and Inspection Fees	267,407	80,358	23,150	490,231	48,187	162,054
Investment Income	95,109	47,217	6,958	1,674	1,037	1,466
Other Income	1,354	1,286	66	259	1,814	500
Total Revenues	$ 3,357,493	$ 1,606,904	$ 1,654,204	$ 2,792,330	$ 1,082,183	$ 1,235,490
Expenditures:						
Purchased Services	$ 447,932	$ 546,075	$ 461,981	$ 351,140	$ 695,026	$ 446,050
Professional Fees	280,611	210,681	192,340	246,895	164,802	168,076
Contracted Services	50,821	38,378	38,783	33,916	29,752	26,560
Utilities	185,972	31,085	33,242	33,330	32,419	6,826
Repairs and Maintenance	45,547	43,096	63,184	30,471	187,778	64,745
Other Expenditures	37,189	39,831	42,247	34,106	30,594	31,730
Tap Connections	60,941	66,358	71,152	184,962	34,987	80,388
Capital outlay	578,977	41,532	292,334	73,096	395,369	636,490
Debt Issuance Costs	-	74,343				
Total Expenditures	$ 1,687,990	$ 1,091,379	$ 1,195,263	$ 987,916	$ 1,570,727	$ 1,460,865
Excess (Deficiency) of Revenues Over Expenditures	$ 1,669,503	$ 515,525	$ 458,941	$ 1,804,414	$ (488,544)	$ (225,375)
Other Financing Sources (Uses)						
Transfers In (Out)	-	-	-	565,728	-	(104,057)
Return of Capital	-	-	-	-	-	-
Total Other Financing Sources	-	-	-	565,728	-	(104,057)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 1,669,503	$ 515,525	$ 458,941	$ 2,370,142	$ (488,544)	$ (329,432)
Beginning Fund Balance	$ 3,615,366	3,099,841	2,640,900	270,758	759,302	1,088,734
Ending Fund Balance	$ 5,284,869	$ 3,615,366	$ 3,099,841	$ 2,640,900	$ 270,758	$ 759,302

(a) Unaudited. For the year ended September 30, 2019.
(b) Such revenue accrued from the period of June 2010 through February 2016. The lump sum payment was made during fiscal year 2016 because it was not until fiscal year 2016 that there were enough sales tax accounts in the District for payment to be remitted by the State.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Debt Service	Debt Service on the Bonds: Principal	Debt Service on the Bonds: Interest	Debt Service on the Bonds: Total	Total Debt Service
2020	$ 3,610,926	$ -	$ 203,958	$ 203,958	$ 3,814,884
2021	3,581,376	205,000	271,944	476,944	4,058,320
2022	3,554,976	215,000	263,744	478,744	4,033,720
2023	3,523,686	225,000	255,144	480,144	4,003,830
2024	3,486,971	235,000	246,144	481,144	3,968,115
2025	3,452,056	245,000	236,744	481,744	3,933,800
2026	3,413,731	260,000	226,944	486,944	3,900,675
2027	3,372,931	270,000	216,544	486,544	3,859,475
2028	3,334,613	280,000	211,144	491,144	3,825,756
2029	3,288,819	295,000	202,744	497,744	3,786,563
2030	3,239,963	310,000	193,894	503,894	3,743,856
2031	3,192,463	320,000	184,594	504,594	3,697,056
2032	3,141,131	335,000	174,994	509,994	3,651,125
2033	3,086,944	350,000	164,944	514,944	3,601,888
2034	3,031,106	365,000	154,444	519,444	3,550,550
2035	2,976,619	385,000	143,494	528,494	3,505,113
2036	2,904,894	400,000	131,944	531,944	3,436,838
2037	2,415,863	420,000	119,944	539,944	2,955,806
2038	2,409,294	440,000	107,344	547,344	2,956,638
2039	2,344,075	455,000	94,144	549,144	2,893,219
2040	2,277,638	480,000	80,494	560,494	2,838,131
2041	1,184,363	500,000	66,094	566,094	1,750,456
2042	999,725	520,000	51,094	571,094	1,570,819
2043	355,300	545,000	34,844	579,844	935,144
2044		570,000	17,813	587,813	587,813
Total	$ 68,179,461	$ 8,625,000	$ 4,055,127	$ 12,680,127	$ 80,859,588

Average Annual Debt Service Requirements (2020-2044)……………………………………… $3,234,384

Maximum Annual Debt Service Requirements (2021)…………………………………………. $4,058,320

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Houston, Texas, or any other political entity other than the District, will be secured by a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Severe Weather

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

According to the District's Engineer, the System (as defined herein) did not sustain any material damage, there was no interruption of water and sewer service, and no commercial or industrial properties within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

Dependence on Principal Taxpayers

Based upon the 2019 certified tax rolls, the ten principal taxpayers are responsible for payment of 97.78% of the District's property taxes. The largest taxpayer is Amazon.com Services Inc. ("Amazon") which is responsible for approximately 29.58% of the District's 2019 taxes levied on approximately $211,208,237 in taxable property value consisting of personal property. The second largest taxpayer is USEF RELP Houston, LLC which is responsible for approximately 21.01% of the District's 2019 taxes levied on approximately $150,015,808 in taxable property value consisting of an approximately 2,400,000 square foot distribution/warehouse facility which is occupied and leased by Amazon. The third largest taxpayer is SYSCO Houston which is responsible for approximately 16.73% of the District's 2019 taxes levied on approximately $119,435,094 in taxable property value. See "THE DISTRICT—Status of Development," "PRINCIPAL PROPERTY OWNERS" and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Funds or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

Dependence on Personal Property Tax Collections

Because a majority of the District's 2019 tax base is comprised of distribution/warehouse/office facilities, approximately 55.67% ($397,532,449) of the certified 2019 Taxable Assessed Valuation ($714,057,711) is personal property. See "TAX DATA—Summary of Assessed Valuation," "TAX PROCEDURES—Property Subject to Taxation by the District."

Unlike real property, there is no certainty that personal property will remain in the District from year to year. Business inventories are portable, and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year.

If personal property is subject to a lien for unpaid District taxes for any year, the District lien is lost if the property is sold in the ordinary course of business. A lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property then or thereafter owned by the taxpayer. However, the District may not be able to foreclose on personal property located outside the State of Texas, and locating and foreclosing on property held outside the District may be costly, inefficient and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20 year statute of limitations for real property. Personal property may not be seized and a suit may not be filed to collect delinquent personal property taxes if the tax has been delinquent for more than four years. A tax and any penalty and interest on the tax that is delinquent longer than the limitations period is presumed paid unless a suit to collect such personal property tax is pending. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. See "TAX PROCEDURES."

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of property for commercial, retail, and industrial use. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for property of this type and the construction of structures thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Markets and Liquidity in the Financial Markets" below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such property is directed.

Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of development funding have a direct impact on construction activity, particularly short-term interest rates at which landowners are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 12 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation's real estate and financial markets could adversely affect development in the District and restrain the growth of or reduce the value of the District's property tax base.

Landowner Obligation to the District

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

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Taxable Assessed Valuation of the District (see "FINANCIAL STATEMENT (UNAUDITED)") is $714,057,711. After issuance of the Bonds, the maximum annual debt service requirement will be $4,058,320 (2021) and the average annual debt service requirement will be $3,234,384 (2020-2044). Assuming no increase or decrease from the 2019 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of $0.60 per $100 taxable assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of $4,058,320 and a tax rate of $0.48 per $100 taxable assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of $3,234,384. See "DEBT SERVICE REQUIREMENTS." Increases in taxable values depend primarily on the continuing construction and sale of taxable improvements within the District. See "TAX PROCEDURES" and "TAX DATA - Tax Adequacy for Debt Service."

Future Debt

The District reserves in the Bond Resolution the right to issue the remaining (i) $57,985,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, (ii) $35,215,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing road facilities, (iii) $20,000,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities, and (iv) $172,775,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding outstanding bonds. After reimbursement from sale of the Bonds, the Major Landowner will have expended approximately $1,000,000 (as of October 9, 2019) for construction and acquisition of District utilities, park and recreational facilities and roadways not yet reimbursed.

Additionally, pursuant to an interlocal agreement between the District and MUD 321, the District owes MUD 321 approximately $20,000 for engineering expenses incurred by MUD 321 for District facilities. It is anticipated that proceeds from future issues of District bonds will be used, in part, to reimburse the Major Landowner and MUD 321, respectively, for these costs to the extent allowed by the Commission, including payments to the City of Houston for the right to use additional capacity in the City's water supply and wastewater treatment facilities, if applicable. In addition, the District may issue additional bonds approved by the District voters in future elections. The principal amount of bonds issued to finance parks and recreational facilities may not exceed 1% of the District's certified value. See "THE BONDS—Issuance of Additional Debt" and "USE AND DISTRIBUTION OF BOND PROCEEDS—Future Debt." The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or parks and recreational facilities must be approved by the Commission.

Tax Collection Limitations

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

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

Environmental Regulations

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

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

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

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

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

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

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

The HGB Area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the HGB Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

Pursuant to the federal Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety

(90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

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

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the United States Army Corps of Engineers ("USACE") if operations of the District require that wetlands be filled, dredged, or otherwise altered.

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final on December 23, 2019.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

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

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this Official Statement under “THE BONDS,” “THE DISTRICT—General,” “WATER SUPPLY AND WASTEWATER TREATMENT—Water and Wastewater Contracts,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as General Counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. The legal fees paid to Allen Boone Humphries Robinson LLP in its capacity as General Counsel are based on time charges actually incurred.

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 Material Adverse Change

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

No-Litigation Certificate

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

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes, and interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of 98.1056% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.190443% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which the Bonds have been offered for sale to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

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

Securities Laws

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

MUNICIPAL BOND RATING

Moody's Investors Service ("Moody's") has assigned a credit rating of "Baa2" (stable outlook) to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The rating fees of Moody's will be paid by the District. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody's, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

> "THE DISTRICT" – Pinto Realty Development, Inc. ("Major Landowner"), BGE, Inc. ("Engineer"), and Records of the District ("Records"); "PRINCIPAL PROPERTY OWNERS" – Major Landowner and Public Information; "WATER SUPPLY AND WASTEWATER TREATMENT" - Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" - Records; "FINANCIAL STATEMENT" - Harris County Appraisal District and Utility Tax Service, LLC, Tax Assessor/Collector; "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" - Utility Tax Service, LLC; "MANAGEMENT" - Records; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAX PROCEDURES," and "LEGAL MATTERS" - Allen Boone Humphries Robinson LLP.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this official statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

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

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled "THE DISTRICT," "THE ROAD SYSTEM" and "WATER SUPPLY AND WASTEWATER TREATMENT" has been provided by BGE, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuation, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Utility Tax Service, LLC and is included herein in reliance upon the authority of such entity as experts in assessing and collecting taxes.

Auditor: The financial statements of the District as of September 30, 2018, and for the year then ended, included in this Official Statement, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. "APPENDIX A" for a copy of the District's September 30, 2018, financial statements.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the Registered and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), or any successor to its functions as a repository, through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB through its EMMA system. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT (UNAUDITED)," "TAX DATA," "WATER AND SEWER OPERATIONS," "DEBT SERVICE REQUIREMENTS," (most of which information is contained in the District's annual audited financial statements) and in APPENDIX A. The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond

Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under the federal securities laws. Neither the Bonds nor the Bond Resolution make 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 MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements, with the following exception.

On December 22, 2010, the District issued its $3,340,000 Unlimited Tax Road Bonds, Series 2010 (the "Series 2010 Bonds"). The offering document for the Series 2010 Bonds stated that the District would provide certain financial information and operating data annually to the MSRB within six months after the end of each of its fiscal years ending in or after 2010. Due to an administrative oversight, the District did not file its audited financial statements for the fiscal year ended September 30, 2010 with the MSRB within six months after the end of the District's 2010 fiscal year, as required. Subsequently, the District issued its $9,130,000 Unlimited Tax Road Bonds, Series 2014 (the "Series 2014 Bonds") and its $6,850,000 Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds"). Neither the offering document for the Series 2014 Bonds nor the offering document for the Series 2016 Bonds stated that the District failed to file its audited financial statements for the fiscal year ended September 30, 2010 within the required period of time. The District filed its audited financial statements for the fiscal year ended September 30, 2010 with the MSRB through the EMMA internet portal on April 13, 2017, which was more than six months after the end of the District's 2010 fiscal year. The District filed a related Notice of Late Filing with the MSRB through the EMMA internet portal on April 13, 2017.

MISCELLANEOUS

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

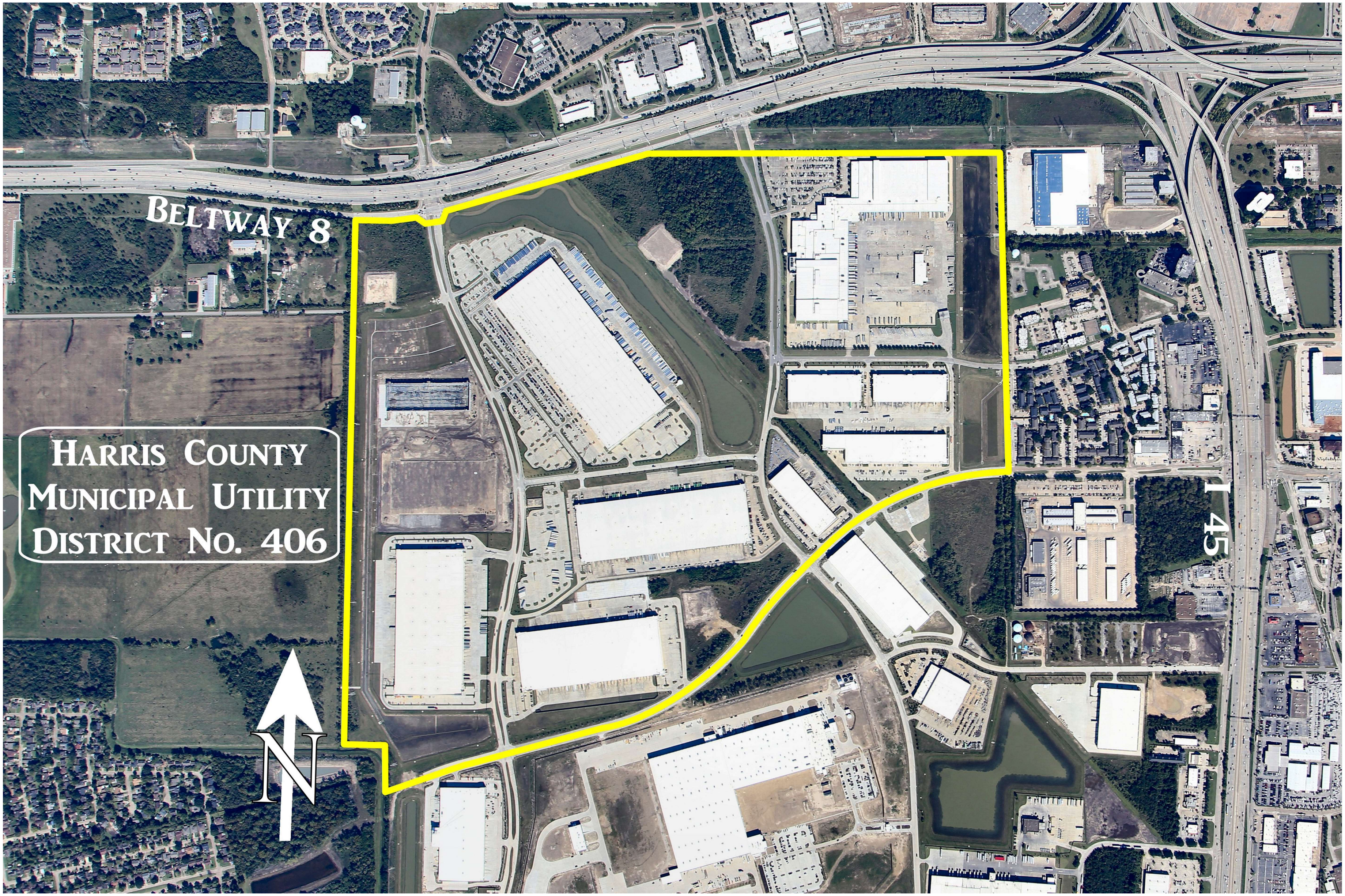
This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 406, as of the date shown on the cover page.

/s/ ***Bruce Arendale***
President, Board of Directors
Harris County Municipal Utility District No. 406

ATTEST:

/s/ ***David E. Stevenson***
Secretary, Board of Directors
Harris County Municipal Utility District No. 406

AERIAL PHOTOGRAPH
(Approximate boundaries of the District as of September 2019)


Harris County
Municipal Utility
District No. 406
Beltway 8
I 45
N

PHOTOGRAPHS

The following photographs were taken in the District in 2019, solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if any additional improvements will be constructed in the future.


THE REYNOLDS
COMPANY
ELECTRICAL SUPPLY


HD SUPPLY
FACILITIES MAINTENANCE


Sysco


ATC
No Trucks in Driveway


amazon


Emser Tile™


Kitchen
Cabinet
Distributors

APPENDIX A

Independent Auditor's Report and Financial Statements for the fiscal year ended September 30, 2018

Harris County Municipal Utility District No. 406

Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2018

BKD LLP
CPAs & Advisors

Harris County Municipal Utility District No. 406
September 30, 2018

Contents

BKD
CPAs & Advisors

2700 Post Oak Boulevard, Suite 1500 | Houston, TX 77056-5829
713.499.4600 | Fax 713.499.4699 | bkd.com

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 406
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 406 (the District), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
February 6, 2019

Harris County Municipal Utility District No. 406
Management's Discussion and Analysis
September 30, 2018

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2018	2017
Current and other assets	$ 6,992,165	$ 5,641,979
Capital assets	38,118,614	34,961,808
Total assets	45,110,779	40,603,787
Deferred outflows of resources	170,138	181,606
Total assets and deferred outflows of resources	$ 45,280,917	$ 40,785,393
Long-term liabilities	$ 44,902,844	$ 38,069,672
Other liabilities	3,564,694	4,790,701
Total liabilities	48,467,538	42,860,373
Net position:		
Net investment in capital assets	(2,614,238)	(2,101,266)
Restricted	1,421,551	1,008,031
Unrestricted	(1,993,934)	(981,745)
Total net position	$ (3,186,621)	$ (2,074,980)

The total net position of the District decreased by $1,111,641, or about 54 percent. The majority of the decrease in net position is related to the conveyance of capital assets to another entity for maintenance. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

	2018	2017
Revenues:		
Property taxes	$ 3,620,608	$ 2,265,522
City of Houston rebates	310,069	417,132
Charges for services	1,307,958	1,218,891
Other revenues	185,532	46,527
Total revenues	5,424,167	3,948,072
Expenses:		
Services	2,078,076	2,010,282
Conveyance of capital assets	1,528,083	232,514
Depreciation	617,322	402,247
Debt service	2,312,327	1,859,235
Total expenses	6,535,808	4,504,278
Change in net position	(1,111,641)	(556,206)
Net position, beginning of year	(2,074,980)	(1,518,774)
Net position, end of year	$ (3,186,621)	$ (2,074,980)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2018, were $6,176,339, an increase of $1,186,925 from the prior year.

The general fund's fund balance increased by $515,525. This increase was primarily related to receipt of City of Houston (the City) sales tax rebates, property taxes and service revenues in excess of operating expenditures.

The joint facilities fund's fund balance remained the same as all expenditures were billed to the participants.

The debt service fund's fund balance increased by $450,224 due to property tax revenues being greater than bond principal and interest requirements.

The capital projects fund's fund balance increased by $221,176. This increase was primarily due to proceeds from the District's bond sale and property owner advances in excess of capital outlay and debt issuance costs expenditures.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to service and property taxes revenues and interest income, as well as purchased services expenditures being higher than anticipated. In addition, City sales tax rebate revenues, tap connection and inspection fee revenues and expenditures, capital outlay and debt issuance costs expenditures were not budgeted. The fund balance as of September 30, 2018, was expected to be $3,390,951 and the actual end-of-year fund balance was $3,615,366.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2018	2017
Land and improvements	$ 20,415,034	$ 15,694,761
Construction in progress	1,942,569	8,481,425
Water facilities	4,322,935	3,479,071
Wastewater facilities	4,485,304	3,338,015
Road facilities	6,952,772	3,968,536
Total capital assets	$ 38,118,614	$ 34,961,808

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

Land addition of detention pond Nos. 6, 7, 8, 9 and 10 sites, lift station No. 1 site, lift station No. 2 site and detention pond No. 3	$ 4,025,361
Construction in progress related to Ella Boulevard at Beltway 8 right turn lane and traffic signal; water plant No. 1, Phase 2; water plant No. 2, Pinto Business Park Unrestricted Reserve on Ella facilities and paving, detention ponds DD1 and DD2, detention ponds 8 and 9 expansion, Aldine Western Road utilities and paving, Gillespie Road facilities and paving, Ella Boulevard, Section 3, Deer Trail extension and Pinto Business Park Drive, Section 1, facilities and paving	623,758
Water and sewer facilities to serve Ella Boulevard street dedication, Sections 1 and 2, Pinto Business Park Drive street dedication, Section 1, Fallbrook Drive street dedication, Section 1, Deer Trail and Greens Crossing Boulevard and Tall Pine Valley Drive	123,992
Water and sewer facilities to serve Pinto Business Park detention reserves	122,930
Lift station Nos. 1 and 2	83,529
Beltway and Ella Boulevard traffic signal and paving improvements	16,813
Total additions to capital assets	$ 4,996,383

Property owners in the District have funded the construction of District facilities under the terms of contracts with the District. The District has agreed to reimburse such property owners from the proceeds of future bond issues, subject to the approval of the Commission. At September 30, 2018, a liability for capital assets funded by the property owners of $1,606,864 was recorded in the government-wide financial statements.

Debt

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

Long-term debt payable, beginning of year	$	38,069,672
Increases in long-term debt		16,891,359
Decreases in long-term debt		(10,058,187)
Long-term debt payable, end of year	$	44,902,844

At September 30, 2018, the District had $71,540,000 in utility bonds, $20,000,000 in parks and recreation bonds, $35,215,000 in road bonds and $172,775,000 of refunding bonds authorized, but unissued.

The District's bonds carry an underlying rating of "Baa2" from Moody's Investors Service.

Other Relevant Factors

Strategic Partnership Agreement

Effective November 14, 2007, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land within the boundaries of the District for the limited purposes of applying certain of the City's Planning, Development, Health and Safety Ordinances.

The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one half of all City sales and use tax revenues generated within the boundaries of the tract of land to the District. As consideration for the sales tax payments, the District agrees to continue to provide and develop water, sewer and drainage services within the District. The City agrees it will not annex the District for full purposes or commence any action to annex the District until: (i) at least 90 percent of the District's water, sewer and drainage facilities have been developed or 30 years, whichever comes first; and (ii) the developer(s) developing water, sewer and drainage facilities have been reimbursed by the District to the maximum extent permitted by the rules of the Commission, or the City assumes any obligation for such reimbursement by the District under such rules. In no event will the date that the City may exercise its option to annex the District for full purposes be more than 30 years from the effective date of the Agreement.

Contingencies

Property owners in the District are funding construction of District facilities under the terms of contracts with the District. The District has agreed to reimburse the property owners for these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission. The District's engineer has stated current construction contract amounts are approximately $237,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Event

On November 15, 2018, the District sold its Unlimited Tax Bonds, Series 2018A, in the amount of $4,930,000 at a net effective interest rate of approximately 4.44 percent. The bonds were sold to reimburse developers of the district for construction projects within the District.

Harris County Municipal Utility District No. 406

Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2018

	General Fund	Joint Facilities Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets							
Cash	$ 3,887,535	$ 97,648	$ 1,549,399	$ 822,861	$ 6,357,443	$ -	$ 6,357,443
Receivables:							
Property taxes	9,685	-	14,031	-	23,716	-	23,716
Service accounts receivables	25,522	-	-	-	25,522	-	25,522
Sales tax receivable	75,154	-	-	-	75,154	-	75,154
Accrued penalty and interest	-	-	-	-	-	7,288	7,288
Interfund receivable	145,916	85,267	8,253	-	239,436	(239,436)	-
Due from others	6,727	245,039	-	251,276	503,042	-	503,042
Capital assets (net of accumulated depreciation):							
Land and improvements	-	-	-	-	-	20,415,034	20,415,034
Construction in progress	-	-	-	-	-	1,942,569	1,942,569
Infrastructure	-	-	-	-	-	8,808,239	8,808,239
Roads	-	-	-	-	-	6,952,772	6,952,772
Total assets	4,150,539	427,954	1,571,683	1,074,137	7,224,313	37,886,466	45,110,779
Deferred Outflows of Resources							
Deferred amount on debt refundings	0	0	0	0	0	170,138	170,138
Total assets and deferred outflows of resources	$ 4,150,539	$ 427,954	$ 1,571,683	$ 1,074,137	$ 7,224,313	$ 38,056,604	$ 45,280,917

Harris County Municipal Utility District No. 406

Statement of Net Position and Governmental Funds Balance Sheet (Continued)

September 30, 2018

	General Fund	Joint Facilities Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities							
Accounts payable	$ 386,218	$ 227,954	$ -	$ 23,040	$ 637,212	$ -	$ 637,212
Accrued interest payable	-	-	-	-	-	126,142	126,142
Retainage payable	-	-	-	-	-	22,370	22,370
Customer deposits	45,750	100,000	-	-	145,750	-	145,750
Due to others	-	-	-	1,860	1,860	2,631,360	2,633,220
Interfund payable	93,520	-	145,916	-	239,436	(239,436)	-
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,815,000	1,815,000
Due after one year	-	-	-	-	-	43,087,844	43,087,844
Total liabilities	525,488	327,954	145,916	24,900	1,024,258	47,443,280	48,467,538
Deferred Inflows of Resources							
Deferred property tax revenues	9,685	0	14,031	0	23,716	(23,716)	0
Fund Balances/Net Position							
Fund balances:							
Restricted:							
Unlimited tax bonds	-	-	1,411,736	-	1,411,736	(1,411,736)	-
Water, wastewater and drainage	-	-	-	894,051	894,051	(894,051)	-
Roads	-	-	-	155,186	155,186	(155,186)	-
Committed, water production and distribution and wastewater collection and treatment	-	100,000	-	-	100,000	(100,000)	-
Unassigned	3,615,366	-	-	-	3,615,366	(3,615,366)	-
Total fund balances	3,615,366	100,000	1,411,736	1,049,237	6,176,339	(6,176,339)	0
Total liabilities, deferred inflows of resources and fund balances	$ 4,150,539	$ 427,954	$ 1,571,683	$ 1,074,137	$ 7,224,313		
Net position:							
Net investment in capital assets						(2,614,238)	(2,614,238)
Restricted for plant operations						100,000	100,000
Restricted for debt service						1,306,913	1,306,913
Restricted for capital projects						14,638	14,638
Unrestricted						(1,993,934)	(1,993,934)
Total net position						$ (3,186,621)	$ (3,186,621)

Harris County Municipal Utility District No. 406

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

Year Ended September 30, 2018

	General Fund	Joint Facilities Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues							
Property taxes	$ 861,679	$ -	$ 2,756,948	$ -	$ 3,618,627	$ 1,981	$ 3,620,608
City of Houston rebates	310,069	-	-	-	310,069	-	310,069
Water service	204,063	-	-	-	204,063	-	204,063
Sewer service	95,447	-	-	-	95,447	-	95,447
Participant billings	-	1,554,523	-	-	1,554,523	(546,075)	1,008,448
Penalty and interest	6,785	-	129	-	6,914	2,941	9,855
Tap connection and inspection fees	80,358	-	-	-	80,358	-	80,358
Interest income	47,217	-	30,165	6,298	83,680	-	83,680
Other income	1,286	-	10,103	250	11,639	-	11,639
Total revenues	1,606,904	1,554,523	2,797,345	6,548	5,965,320	(541,153)	5,424,167
Expenditures/Expenses							
Service operations:							
Purchased services	546,075	1,072,837	-	-	1,618,912	(546,075)	1,072,837
Professional fees	210,681	1,800	131	-	212,612	52,946	265,558
Contracted services	38,378	47,879	33,736	-	119,993	-	119,993
Utilities	31,085	28,047	-	-	59,132	-	59,132
Repairs and maintenance	43,096	393,333	-	-	436,429	-	436,429
Other expenditures	39,831	10,627	7,041	270	57,769	-	57,769
Tap connections	66,358	-	-	-	66,358	-	66,358
Capital outlay	41,532	-	-	15,957,660	15,999,192	(15,999,192)	-
Conveyance of capital assets	-	-	-	-	-	1,528,083	1,528,083
Depreciation	-	-	-	-	-	617,322	617,322
Debt service:							
Principal retirement	-	-	1,150,000	-	1,150,000	(1,150,000)	-
Interest and fees	-	-	1,156,213	-	1,156,213	362,970	1,519,183
Debt issuance costs	74,343	-	-	718,801	793,144	-	793,144
Total expenditures/expenses	1,091,379	1,554,523	2,347,121	16,676,731	21,669,754	(15,133,946)	6,535,808
Excess (Deficiency) of Revenues Over Expenditures	515,525	0	450,224	(16,670,183)	(15,704,434)	14,592,793	
Other Financing Sources (Uses)							
Property owner advances	-	-	-	1,785,371	1,785,371	(1,785,371)	
General obligation bonds issued	-	-	-	15,570,000	15,570,000	(15,570,000)	
Discount on debt issued	-	-	-	(464,012)	(464,012)	464,012	
Total other financing sources	0	0	0	16,891,359	16,891,359	(16,891,359)	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	515,525	-	450,224	221,176	1,186,925	(1,186,925)	
Change in Net Position						(1,111,641)	(1,111,641)
Fund Balances/Net Position							
Beginning of year	3,099,841	100,000	961,512	828,061	4,989,414	-	(2,074,980)
End of year	$ 3,615,366	$ 100,000	$ 1,411,736	$ 1,049,237	$ 6,176,339	$ 0	$ (3,186,621)

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

Harris County Municipal Utility District No. 406 (the District) was created by the Legislature of the State of Texas, effective June 18, 2005, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct and operate waterworks, wastewater and drainage facilities and to provide such services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Special Revenue Fund – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees. The special revenue fund is the joint facilities fund.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

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

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2018, include collections during the current period or within 60 days of year-end related to the 2017 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2018, the 2017 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of $5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Roads and paving facilities	10-20

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

Harris County Municipal Utility District No. 406
Notes to Financial Statements
September 30, 2018

Net Position/ Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

The components of unrestricted net position at September 30, 2018, are as follows:

General fund, unrestricted fund balance, including deferred taxes	$	3,625,051
Conveyed capital assets financed with long-term debt		(5,618,985)
Total	$	(1,993,934)

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	$	38,118,614
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.		23,716
Retainage payable on long-term construction contracts is not due and payable in the current period and is not reported in the funds.		(22,370)
Penalty and interest on delinquent taxes is not receivable in the current period and is not reportable in the funds.		7,288
Amounts due to other districts are not payable in the current period and are not reported in the funds.		(2,631,360)
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.		170,138
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.		(126,142)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.		(44,902,844)
Adjustment to fund balances to arrive at net position.	$	(9,362,960)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	$	1,186,925
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation, noncapitalized expenditures and conveyed capital assets in the current year.		13,800,841
Governmental funds report property owner advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to property owner.		(1,785,371)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		464,012
Governmental funds report proceeds from sales of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.		(14,420,000)
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.		4,922
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(362,970)
Change in net position of governmental activities.	$	(1,111,641)

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

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

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Texas Public Funds Investment Act.

Note 3: Capital Assets

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

Governmental Activities	Balances, Beginning of Year	Additions	Retirements/ Reclassi-fications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	$ 15,694,761	$ 4,025,361	$ 694,912	$ 20,415,034
Construction in progress	8,481,425	623,758	(7,162,614)	1,942,569
Total capital assets, non-depreciable	24,176,186	4,649,119	(6,467,702)	22,357,603

Harris County Municipal Utility District No. 406

Notes to Financial Statements

September 30, 2018

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Retirements/ Reclassi- fications	Balances, End of Year
Capital assets, depreciable:				
Water production and distribution facilities	$ 3,778,837	$ 112,630	$ 839,538	$ 4,731,005
Wastewater collection and treatment facilities	3,739,836	196,425	1,073,650	5,009,911
Road facilities	4,430,025	38,209	3,332,259	7,800,493
Total capital assets, depreciable	11,948,698	347,264	5,245,447	17,541,409
Less accumulated depreciation:				
Water production and distribution facilities	(299,766)	(108,304)	-	(408,070)
Wastewater collection and treatment facilities	(401,821)	(122,786)	-	(524,607)
Road facilities	(461,489)	(386,232)	-	(847,721)
Total accumulated depreciation	(1,163,076)	(617,322)	0	(1,780,398)
Total governmental activities, net	$ 34,961,808	$ 4,379,061	$ (1,222,255)	$ 38,118,614

Note 4: Long-term Liabilities

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

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	$ 29,925,000	$ 15,570,000	$ 1,150,000	$ 44,345,000	$ 1,815,000
Less discounts on bonds	627,474	464,012	30,825	1,060,661	-
Add premiums on bonds	12,426	-	785	11,641	-
	29,309,952	15,105,988	1,119,960	43,295,980	1,815,000
Property owner advances, construction	8,759,720	1,785,371	8,938,227	1,606,864	-
Total governmental activities long-term liabilities	$ 38,069,672	$ 16,891,359	$ 10,058,187	$ 44,902,844	$ 1,815,000

General Obligation Bonds

	Road Series 2010	Road Series 2014
Amounts outstanding, September 30, 2018	$145,000	$8,350,000
Interest rates	5.10%	2.00% to 4.25%
Maturity dates, serially beginning/ending	September 1, 2019	September 1, 2019/2036
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	September 1, 2018	September 1, 2022

	Series 2016	Series 2017
Amounts outstanding, September 30, 2018	$6,350,000	$8,540,000
Interest rates	2.00% to 3.70%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2040	September 1, 2019/2040
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	September 1, 2023	September 1, 2024

	Road Refunding Series 2017	Road Series 2017A
Amounts outstanding, September 30, 2018	$2,575,000	$2,815,000
Interest rates	2.00% to 3.50%	2.00% to 3.75%
Maturity dates, serially beginning/ending	September 1, 2019/2030	September 1, 2019/2041
Interest payment dates	March 1/September 1	March 1/September 1
Callable dates*	September 1, 2023	September 1, 2024

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

	Series 2018
Amount outstanding, September 30, 2018	$15,570,000
Interest rates	2.25% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2042
Interest payment dates	March 1/September 1
Callable date*	September 1, 2023

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at September 30, 2018.

Year	Principal	Interest	Total
2019	$ 1,815,000	$ 1,513,709	$ 3,328,709
2020	1,840,000	1,459,213	3,299,213
2021	1,860,000	1,407,964	3,267,964
2022	1,890,000	1,350,013	3,240,013
2023	1,910,000	1,292,563	3,202,563
2024-2028	9,810,000	5,620,312	15,430,312
2029-2033	10,280,000	3,990,132	14,270,132
2034-2038	9,945,000	2,072,777	12,017,777
2039-2042	4,995,000	400,449	5,395,449
Total	$ 44,345,000	$ 19,107,132	$ 63,452,132

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Water, sewer and drainage bonds voted	$ 102,850,000
Water, sewer and drainage bonds sold	31,310,000
Park bonds voted	20,000,000
Park bonds sold	0
Road bonds voted	50,600,000
Road bonds sold	15,385,000

Refunding bonds voted	$ 173,000,000
Refunding bond authorization used	225,000

Due to Property Owners

Property owners have advanced money for the construction of underground utilities and roads on behalf of the District. The District has agreed to reimburse the property owners for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are $1,606,864. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission, from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

Note 5: Significant Bond Resolution and Commission Requirements

The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2018, the District levied an ad valorem utility debt service tax at the rate of $0.5300 per $100 of assessed valuation, which resulted in a tax levy of $1,827,545 on the taxable valuation of $344,819,897 for the 2017 tax year. The interest and principal requirements paid from the tax revenues were $1,278,272.

In addition, during the year ended September 30, 2018, the District levied an ad valorem road debt service tax at the rate of $0.2700 per $100 of assessed valuation, which resulted in a tax levy of $931,014 on the taxable valuation of $344,819,897 for the 2017 tax year. The interest and principal requirements paid from the tax revenues and available resources were $1,053,227.

Note 6: Maintenance Taxes

At an election held November 7, 2006, voters authorized a maintenance tax not to exceed $1.50 per $100 of assessed valuation on all property within the District subject to taxation. During the year ended September 30, 2018, the District levied an ad valorem maintenance tax at the rate of $0.2500 per $100 of assessed valuation, which resulted in a tax levy of $862,049, on the taxable valuation of $344,819,897 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Strategic Partnership Agreement

Effective November 14, 2007, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes of applying certain of the City's Planning, Development, Health and Safety Ordinances. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract to the District. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District until: (i) at least 90 percent of the District's water, sewer and drainage facilities have been developed or 30 years, whichever comes first; and (ii) the developer(s) developing water, sewer and drainage facilities have been reimbursed by the District to the maximum extent permitted by the rules of the Commission, or the City assumes any obligation for such reimbursement by the District under such rules. In no event will the date that the City may exercise its option to annex the District for full purposes be more than 30 years from the effective date of the Agreement. During the current year, the District recorded revenues of $310,069 related to the Agreement.

Note 8: Risk Management

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

Note 9: Contracts With the City of Houston

Waste Disposal

As of December 12, 2010, the District and Harris County Municipal Utility District No. 321 (District No. 321) entered into a 40-year Sanitary Sewer Service Agreement (the Sanitary Agreement) with the City, which supersedes the District's previous waste disposal agreement with the City. Pursuant to the terms of the new Sanitary Agreement, the City will provide all sanitary sewer collection and treatment services to the District and District No. 321 for up to 1,600,000 gallons per day at fees based on the City's wholesale wastewater rate per thousand gallons. As of September 30, 2018, the rate was $5.8790 per thousand gallons. The Sanitary Agreement also required the District and District No. 321 to construct certain sanitary sewer collection facilities to deliver waste to the City at certain agreed-upon points of discharge for collection and treatment.

Water Supply

As of July 20, 2011, the District and District No. 321 entered into a 40-year Treated Water Supply Contract (the Contract) with the City. The Contract supersedes the District's previous water supply agreement with the City. Pursuant to the terms of the Contract, the City will sell and deliver to the District treated water at the rate set by ordinance by the City for contract-treated water customers.

As of September 30, 2018, the rate was $3.0640 per thousand gallons, plus $0.760 per thousand gallons over the minimum requirement. Under the terms of the Contract, the District and District No. 321 have paid impact fees to the City to reserve treated water supply capacity of 2,000,000 gallons per day. The Contract also requires the District and District No. 321 to construct certain water storage and pressurization facilities to receive water from the City at certain agreed-upon points of connection. On January 20, 2017, the Contract was amended to provide that the District and District No. 321 may reserve an additional 2,200,000 gallons per day of treated water supply capacity by paying impact fees to the City and/or constructing certain facilities on behalf of the City.

Note 10: Due To Others

Beginning in 2009, the District and District No. 321 began incurring engineering fees relative to the design of water, sewer, drainage, park and road facilities to serve the two districts and were required to pay certain water impact fees to the City. All impact fees paid to date were funded by District No. 321, as well as certain engineering costs. At September 30, 2018, the District owes $2,631,360 to District No. 321, which is comprised of $1,133,788 for impact fees plus $1,497,572 for engineering costs paid by District No. 321 on behalf of the District.

Note 11: Joint Facilities Agreement

Effective August 20, 2013, the District and District No. 321 entered into a Joint Facilities Agreement (the Joint Agreement), which sets forth the general terms and conditions pursuant to which the districts share in the joint financing, operation, and use of certain water, sanitary sewer, storm drainage and detention, and road facilities that serve the areas within both districts (the Regional Facilities). Under the Joint Agreement, each district is obligated to pay its pro rata share of the cost of designing and constructing each Regional Facility. District No. 406 operates the Regional Facilities (other than road facilities, which are conveyed to Harris County following construction) for the benefit of both districts. However, the Joint Agreement requires each district to pay its pro rata share of the operation and maintenance expenses associated with the Regional Facilities. The Joint Agreement remains in effect unless terminated by mutual written agreement of the District and District No. 321. The Joint Agreement was amended and restated effective March 21, 2017. District No. 406 and District No. 321 have both deposited $100,000 in the joint facilities fund as an operating reserve.

Transactions for the joint facilities fund for the current year are as follows.

	District No. 321	The District	Total
Receivable, beginning of year	$ 308,638	$ 141,115	$ 449,753
Current year billings	1,008,448	546,075	1,554,523
Collections	(1,105,432)	(601,923)	(1,707,355)
Receivable, end of year	$ 211,654	$ 85,267	$ 296,921

Note 12: Contingencies

Property owners in the District are financing construction of District facilities under the terms of contracts with the District. The District has agreed to reimburse the property owners for these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission. The District's engineer has stated current construction contract amounts are approximately $237,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 13: Concentrations

At September 30, 2018, for the January 1, 2018, assessed property tax valuation, five taxpayers own approximately 87 percent of the District's total assessed value.

Note 14: Subsequent Event

On November 15, 2018, the District sold its Unlimited Tax Bonds, Series 2018A, in the amount of $4,930,000 at a net effective interest rate of approximately 4.44 percent. The bonds were sold to reimburse developers of the district for construction projects within the District.

Required Supplementary Information

Harris County Municipal Utility District No. 406

Budgetary Comparison Schedule – General Fund

Year Ended September 30, 2018

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	$ 800,000	$ 861,679	$ 61,679
City of Houston rebates	-	310,069	310,069
Water service	140,000	204,063	64,063
Sewer service	80,000	95,447	15,447
Penalty and interest	-	6,785	6,785
Tap connection and inspection fees	-	80,358	80,358
Interest income	5,000	47,217	42,217
Other income	1,000	1,286	286
Total revenues	1,026,000	1,606,904	580,904
Expenditures			
Service operations:			
Purchased services	352,290	546,075	(193,785)
Professional fees	228,000	210,681	17,319
Contracted services	43,000	38,378	4,622
Utilities	40,000	31,085	8,915
Repairs and maintenance	45,000	43,096	1,904
Other expenditures	26,600	39,831	(13,231)
Tap connections	-	66,358	(66,358)
Capital outlay	-	41,532	(41,532)
Debt service, debt issuance costs	-	74,343	(74,343)
Total expenditures	734,890	1,091,379	(356,489)
Excess of Revenues Over Expenditures	291,110	515,525	224,415
Fund Balance, Beginning of Year	3,099,841	3,099,841	-
Fund Balance, End of Year	$ 3,390,951	$ 3,615,366	$ 224,415

Harris County Municipal Utility District No. 406

Budgetary Comparison Schedule – Joint Facilities Fund

Year Ended September 30, 2018

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Participant billings:			
The District	$ 352,290	$ 546,075	$ 193,785
District No. 321	822,010	1,008,448	186,438
Total revenues	1,174,300	1,554,523	380,223
Expenditures			
Service operations:			
Purchased services	730,000	1,072,837	(342,837)
Professional fees	4,000	1,800	2,200
Contracted services	54,800	47,879	6,921
Utilities	18,000	28,047	(10,047)
Repairs and maintenance	355,000	393,333	(38,333)
Other expenditures	12,500	10,627	1,873
Total expenditures	1,174,300	1,554,523	(380,223)
Excess of Revenues Over Expenditures	-	-	-
Fund Balance, Beginning of Year	100,000	100,000	-
Fund Balance, End of Year	$ 100,000	$ 100,000	$ 0

Harris County Municipal Utility District No. 406

Notes to Required Supplementary Information

September 30, 2018

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general fund and joint facilities fund by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general fund and joint facilities fund were not amended during fiscal 2018.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund and Joint Facilities Fund present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Harris County Municipal Utility District No. 406

Other Schedules Included Within This Report

September 30, 2018

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

[X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-27

[X] Schedule of Services and Rates

[X] Schedule of General Fund Expenditures

[ ] Schedule of Temporary Investments – Not Applicable

[X] Analysis of Taxes Levied and Receivable

[X] Schedule of Long-term Debt Service Requirements by Years

[X] Changes in Long-term Bonded Debt

[X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund

[X] Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 406
Schedule of Services and Rates
Year Ended September 30, 2018

1. Services provided by the District:

X Retail Water	___ Wholesale Water	X Drainage
X Retail Wastewater	___ Wholesale Wastewater	___ Irrigation
X Parks/Recreation	___ Fire Protection	___ Security
___ Solid Waste/Garbage	___ Flood Control	X Roads

X Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

___ Other __________________

2. Retail service providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels		
Water:	$ 50.00	10,000	N	$ 3.70	10,001	to	20,000
				$ 3.80	20,001	to	30,000
				$ 3.90	30,001		40,000
				$ 4.00	40,001	to	No Limit
Wastewater:	$ 55.00	10,000	N	$ 5.25	10,001	to	20,000
				$ 5.35	20,001	to	30,000
				$ 5.45	30,001		40,000
				$ 5.55	40,001	to	No Limit

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

Total charges per 10,000 gallons usage (including fees): Water $ 50.00 Wastewater $ 55.00

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	2	2	x1.0	2
1"	3	3	x2.5	8
1 1/2"	-	-	x5.0	-
2"	17	17	x8.0	136
3"	-	-	x15.0	-
4"	2	2	x25.0	50
6"	-	-	x50.0	-
8"	7	7	x80.0	560
10"	1	1	x115.0	115
Total water	32	32		871
Total wastewater	19	19	x1.0	19

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

Gallons pumped into the system:	46,940
Gallons billed to customers:	43,790
Water accountability ratio (gallons billed/gallons pumped):	93.29%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 406
Schedule of General Fund Expenditures
Year Ended September 30, 2018

Personnel (including benefits)		$ -
Professional Fees		
Auditing	$ 22,200	
Legal	129,493	
Engineering	58,988	
Financial advisor	-	210,681
Purchased Services for Resale		
Bulk water and wastewater service purchases		546,075
Regional Water Fee		-
Contracted Services		
Bookkeeping	14,782	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	-	
Other contracted services	23,596	38,378
Utilities		31,085
Repairs and Maintenance		43,096
Administrative Expenditures		
Directors' fees	10,350	
Office supplies	-	
Insurance	5,817	
Other administrative expenditures	23,664	39,831
Capital Outlay		
Capitalized assets	41,532	
Expenditures not capitalized	-	41,532
Tap Connection Expenditures		66,358
Solid Waste Disposal		-
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		74,343
Total expenditures		$ 1,091,379

Harris County Municipal Utility District No. 406

Analysis of Taxes Levied and Receivable

Year Ended September 30, 2018

	Maintenance Taxes	Road Debt Service Taxes	Utility Debt Service Taxes
Receivable, Beginning of Year	$ 9,315	$ 4,554	$ 7,866
2017 Original Tax Levy	719,337	776,884	1,524,994
Additions and corrections	142,712	154,130	302,551
Adjusted tax levy	862,049	931,014	1,827,545
Total to be accounted for	871,364	935,568	1,835,411
Tax collections: Current year	(861,451)	(930,367)	(1,826,277)
Prior years	(228)	(111)	(193)
Receivable, end of year	$ 9,685	$ 5,090	$ 8,941
Receivable, by Years			
2017	$ 598	$ 647	$ 1,268
2016	9,087	4,443	7,673
Receivable, end of year	$ 9,685	$ 5,090	$ 8,941

Harris County Municipal Utility District No. 406

Analysis of Taxes Levied and Receivable (Continued)

Year Ended September 30, 2018

	2017	2016	2015	2014
Property Valuations				
Land	$ 74,258,019	$ 54,526,193	$ 33,351,806	$ 21,812,938
Improvements	194,448,121	88,391,169	66,422,799	29,066,160
Personal property	93,284,781	90,845,312	82,592,703	58,443,391
Exemptions	(17,171,024)	(9,895,538)	(5,035,173)	(2,573,406)
Total property valuations	$ 344,819,897	$ 223,867,136	$ 177,332,135	$ 106,749,083
Tax Rates per $100 Valuation				
Utility debt service tax rates	$ 0.5300	$ 0.3800	$ -	$ -
Road debt service tax rates	0.2700	0.2200	0.6000	0.7500
Maintenance tax rates*	0.2500	0.4500	0.4500	0.3000
Total tax rates per $100 valuation	$ 1.0500	$ 1.0500	$ 1.0500	$ 1.0500
Tax Levy	$ 3,620,608	$ 2,350,607	$ 1,861,987	$ 1,120,865
Percent of Taxes Collected to Taxes Levied**	99%	99%	100%	100%

*Maximum tax rate approved by voters: $1.50 on November 7, 2006

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

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years

September 30, 2018

	Road Series 2010		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 145,000	$ 7,395	$ 152,395

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

	Road Series 2014		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 280,000	$ 311,125	$ 591,125
2020	290,000	304,825	594,825
2021	300,000	297,575	597,575
2022	310,000	289,325	599,325
2023	320,000	280,025	600,025
2024	330,000	270,425	600,425
2025	340,000	259,700	599,700
2026	350,000	247,800	597,800
2027	360,000	235,550	595,550
2028	370,000	222,500	592,500
2029	380,000	208,625	588,625
2030	390,000	194,375	584,375
2031	680,000	178,775	858,775
2032	700,000	151,575	851,575
2033	720,000	123,575	843,575
2034	740,000	94,775	834,775
2035	740,000	63,325	803,325
2036	750,000	31,875	781,875
Totals	$ 8,350,000	$ 3,765,750	$ 12,115,750

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

	Series 2016		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 250,000	$ 196,157	$ 446,157
2020	250,000	191,156	441,156
2021	250,000	186,157	436,157
2022	250,000	181,156	431,156
2023	250,000	176,156	426,156
2024	250,000	168,655	418,655
2025	250,000	161,156	411,156
2026	250,000	153,656	403,656
2027	250,000	146,156	396,156
2028	250,000	138,656	388,656
2029	250,000	131,156	381,156
2030	250,000	123,656	373,656
2031	250,000	115,844	365,844
2032	250,000	107,720	357,720
2033	250,000	99,594	349,594
2034	250,000	91,469	341,469
2035	275,000	83,031	358,031
2036	275,000	73,750	348,750
2037	450,000	64,125	514,125
2038	450,000	48,375	498,375
2039	450,000	32,625	482,625
2040	450,000	16,313	466,313
Totals	$ 6,350,000	$ 2,686,719	$ 9,036,719

Harris County Municipal Utility District No. 406
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2018

	Series 2017		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 350,000	$ 290,413	$ 640,413
2020	350,000	283,412	633,412
2021	350,000	276,413	626,413
2022	350,000	265,912	615,912
2023	350,000	255,413	605,413
2024	350,000	244,912	594,912
2025	350,000	234,413	584,413
2026	350,000	223,912	573,912
2027	350,000	213,413	563,413
2028	350,000	202,475	552,475
2029	350,000	191,100	541,100
2030	350,000	179,287	529,287
2031	350,000	167,038	517,038
2032	350,000	154,787	504,787
2033	350,000	142,100	492,100
2034	350,000	128,975	478,975
2035	350,000	115,850	465,850
2036	350,000	102,725	452,725
2037	515,000	89,600	604,600
2038	575,000	69,000	644,000
2039	575,000	46,000	621,000
2040	575,000	23,000	598,000
Totals	$ 8,540,000	$ 3,900,150	$ 12,440,150

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

	Road Refunding Series 2017		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 40,000	$ 79,143	$ 119,143
2020	195,000	78,344	273,344
2021	200,000	74,443	274,443
2022	205,000	68,444	273,444
2023	215,000	62,294	277,294
2024	220,000	55,844	275,844
2025	230,000	49,244	279,244
2026	235,000	42,344	277,344
2027	245,000	35,294	280,294
2028	255,000	27,331	282,331
2029	265,000	18,725	283,725
2030	270,000	9,450	279,450
Totals	$ 2,575,000	$ 600,900	$ 3,175,900

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

Due During Fiscal Years Ending September 30	Road Series 2017A Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 100,000	$ 90,363	$ 190,363
2020	105,000	88,363	193,363
2021	110,000	86,263	196,263
2022	125,000	84,063	209,063
2023	125,000	80,313	205,313
2024	125,000	76,563	201,563
2025	125,000	72,813	197,813
2026	125,000	69,063	194,063
2027	125,000	65,313	190,313
2028	125,000	61,563	186,563
2029	125,000	57,813	182,813
2030	125,000	53,906	178,906
2031	125,000	49,844	174,844
2032	125,000	45,625	170,625
2033	125,000	41,250	166,250
2034	125,000	36,875	161,875
2035	125,000	32,500	157,500
2036	125,000	27,968	152,968
2037	125,000	23,434	148,434
2038	125,000	18,750	143,750
2039	125,000	14,062	139,062
2040	125,000	9,374	134,374
2041	125,000	4,687	129,687
Totals	$ 2,815,000	$ 1,190,768	$ 4,005,768

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

	Series 2018		
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1, September 1	Total
2019	$ 650,000	$ 539,113	$ 1,189,113
2020	650,000	513,113	1,163,113
2021	650,000	487,113	1,137,113
2022	650,000	461,113	1,111,113
2023	650,000	438,362	1,088,362
2024	650,000	423,738	1,073,738
2025	650,000	407,487	1,057,487
2026	650,000	389,613	1,039,613
2027	650,000	370,112	1,020,112
2028	650,000	350,611	1,000,611
2029	650,000	331,112	981,112
2030	650,000	310,800	960,800
2031	650,000	289,675	939,675
2032	650,000	267,738	917,738
2033	650,000	244,987	894,987
2034	650,000	222,238	872,238
2035	650,000	199,487	849,487
2036	650,000	175,925	825,925
2037	650,000	151,550	801,550
2038	650,000	127,175	777,175
2039	650,000	101,988	751,988
2040	650,000	76,800	726,800
2041	650,000	50,800	700,800
2042	620,000	24,800	644,800
Totals	$ 15,570,000	$ 6,955,450	$ 22,525,450

Harris County Municipal Utility District No. 406

Schedule of Long-term Debt Service Requirements by Years (Continued)

September 30, 2018

	Annual Requirements For All Series		
Due During Fiscal Years Ending	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	$ 1,815,000	$ 1,513,709	$ 3,328,709
2020	1,840,000	1,459,213	3,299,213
2021	1,860,000	1,407,964	3,267,964
2022	1,890,000	1,350,013	3,240,013
2023	1,910,000	1,292,563	3,202,563
2024	1,925,000	1,240,137	3,165,137
2025	1,945,000	1,184,813	3,129,813
2026	1,960,000	1,126,388	3,086,388
2027	1,980,000	1,065,838	3,045,838
2028	2,000,000	1,003,136	3,003,136
2029	2,020,000	938,531	2,958,531
2030	2,035,000	871,474	2,906,474
2031	2,055,000	801,176	2,856,176
2032	2,075,000	727,445	2,802,445
2033	2,095,000	651,506	2,746,506
2034	2,115,000	574,332	2,689,332
2035	2,140,000	494,193	2,634,193
2036	2,150,000	412,243	2,562,243
2037	1,740,000	328,709	2,068,709
2038	1,800,000	263,300	2,063,300
2039	1,800,000	194,675	1,994,675
2040	1,800,000	125,487	1,925,487
2041	775,000	55,487	830,487
2042	620,000	24,800	644,800
Totals	$ 44,345,000	$ 19,107,132	$ 63,452,132

Harris County Municipal Utility District No. 406
Changes in Long-term Bonded Debt
Year Ended September 30, 2018

	Bond			
	Road Series 2010	Road Series 2014	Series 2016	Series 2017
Interest rates	5.10%	2.00% to 4.25%	2.00% to 3.70%	2.00% to 4.00%
Dates interest payable	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity dates	September 1, 2019	September 1, 2019/2036	September 1, 2019/2040	September 1, 2019/2040
Bonds outstanding, beginning of current year	$ 285,000	$ 8,620,000	$ 6,600,000	$ 8,890,000
Bonds sold during current year	-	-	-	-
Retirements, principal	140,000	270,000	250,000	350,000
Bonds outstanding, end of current year	$ 145,000	$ 8,350,000	$ 6,350,000	$ 8,540,000
Interest paid during current year	$ 14,395	$ 316,525	$ 201,156	$ 297,412

Paying agent's name and address:

Series 2010 - Wells Fargo Bank, N.A., Austin, Texas
Series 2014 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2016 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017R - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017A - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2018 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds	Refunding Bonds
Amount authorized by voters	$ 102,850,000	$ 20,000,000	$ 50,600,000	$ 173,000,000
Amount issued	$ 31,310,000	$ -	$ 15,385,000	$ 225,000
Remaining to be issued	$ 71,540,000	$ 20,000,000	$ 35,215,000	$ 172,775,000

Debt service fund cash and temporary investment balances as of September 30, 2018: $ 1,549,399

Average annual debt service payment (principal and interest) for remaining term of all debt: $ 2,643,839

Issues

Road Refunding Series 2017	Road Series 2017A	Series 2018	Totals
2.00% to 3.50%	2.00% to 3.75%	2.25% to 4.00%	
March 1/ September 1	March 1/ September 1	March 1/ September 1	
September 1, 2019/2030	September 1, 2019/2041	September 1, 2019/2042	
$ 2,615,000	$ 2,915,000	$ -	$ 29,925,000
-	-	15,570,000	15,570,000
40,000	100,000	-	1,150,000
$ 2,575,000	$ 2,815,000	$ 15,570,000	$ 44,345,000
$ 79,944	$ 92,363	$ 179,704	$ 1,181,499

Harris County Municipal Utility District No. 406
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended September 30,

	Amounts				
	2018	2017	2016	2015	2014
General Fund					
Revenues					
Property taxes	$ 861,679	$ 961,623	$ 798,423	$ 320,097	$ 603,575
City of Houston rebates	310,069	417,132	1,342,790	-	-
Water service	204,063	158,340	100,594	324,323	242,194
Sewer service	95,447	84,373	54,660	386,381	224,306
Penalty and interest	6,785	2,562	3,699	344	1,395
Tap connection and inspection fees	80,358	23,150	490,231	48,187	162,054
Interest income	47,217	6,958	1,674	1,037	1,466
Other income	1,286	66	259	1,814	500
Total revenues	1,606,904	1,654,204	2,792,330	1,082,183	1,235,490
Expenditures					
Service operations:					
Purchased services	546,075	461,981	351,140	695,026	446,050
Professional fees	210,681	192,340	246,895	164,802	168,076
Contracted services	38,378	38,783	33,916	29,752	26,560
Utilities	31,085	33,242	33,330	32,419	6,826
Repairs and maintenance	43,096	63,184	30,471	187,778	64,745
Other expenditures	39,831	42,247	34,106	30,594	31,730
Tap connections	66,358	71,152	184,962	34,987	80,388
Capital outlay	41,532	292,334	73,096	395,369	636,490
Debt service, debt issuance costs	74,343	-	-	-	-
Total expenditures	1,091,379	1,195,263	987,916	1,570,727	1,460,865
Excess (Deficiency) of Revenues Over Expenditures	515,525	458,941	1,804,414	(488,544)	(225,375)
Other Financing Sources (Uses)					
Interfund transfers in (out)	-	-	565,728	-	(104,057)
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	515,525	458,941	2,370,142	(488,544)	(329,432)
Fund Balance, Beginning of Year	3,099,841	2,640,900	270,758	759,302	1,088,734
Fund Balance, End of Year	$ 3,615,366	$ 3,099,841	$ 2,640,900	$ 270,758	$ 759,302
Total Active Retail Water Connections	32	28	25	15	11
Total Active Retail Wastewater Connections	19	16	15	10	5

Percent of Fund Total Revenues				
2018	2017	2016	2015	2014
53.6 %	58.1 %	28.6 %	29.6 %	48.9 %
19.3	25.2	48.1	-	-
12.7	9.6	3.6	30.0	19.6
6.0	5.1	1.9	35.7	18.2
0.4	0.2	0.1	0.0	0.1
5.0	1.4	17.6	4.4	13.1
2.9	0.4	0.1	0.1	0.1
0.1	0.0	0.0	0.2	0.0
100.0	100.0	100.0	100.0	100.0
34.0	27.9	12.6	64.2	36.1
13.1	11.6	8.9	15.2	13.6
2.4	2.3	1.2	2.8	2.1
1.9	2.0	1.2	3.0	0.6
2.7	3.8	1.1	17.4	5.2
2.5	2.6	1.2	2.8	2.6
4.1	4.3	6.6	3.2	6.5
2.6	17.7	2.6	36.5	51.5
4.6	-	-	-	-
67.9	72.2	35.4	145.1	118.2
32.1 %	27.8 %	64.6 %	(45.1) %	(18.2) %

Harris County Municipal Utility District No. 406

Comparative Schedule of Revenues and Expenditures – Debt Service Fund

Five Years Ended September 30,

	Amounts				
	2018	2017	2016	2015	2014
Debt Service Fund					
Revenues					
Property taxes	$ 2,756,948	$ 1,282,164	$ 1,064,564	$ 800,546	$ 293,496
Penalty and interest	129	2,416	1,077	-	-
Interest income	30,165	4,247	2,446	1,661	933
Other income	10,103	-	1,359	1,927	420
Total revenues	2,797,345	1,288,827	1,069,446	804,134	294,849
Expenditures					
Current:					
Professional fees	131	-	-	-	-
Contracted services	33,736	24,183	20,862	15,544	13,669
Other expenditures	7,041	35,086	40,480	4,096	2,019
Debt service:					
Principal retirement	1,150,000	640,000	370,000	115,000	105,000
Interest and fees	1,156,213	722,296	494,854	399,287	177,802
Debt issuance costs	-	118,553	-	-	-
Debt defeasance	-	65,500	-	-	-
Total expenditures	2,347,121	1,605,618	926,196	533,927	298,490
Excess (Deficiency) of Revenues Over Expenditures	450,224	(316,791)	143,250	270,207	(3,641)
Other Financing Sources (Uses)					
General obligation bonds issued	-	2,615,000	103,078	326,725	-
Premium on debt issued	-	12,879	-	-	-
Deposit with escrow agent	-	(2,501,073)	-	-	-
Total other financing sources	0	126,806	103,078	326,725	0
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	450,224	(189,985)	246,328	596,932	(3,641)
Fund Balance, Beginning of Year	961,512	1,151,497	905,169	308,237	311,878
Fund Balance, End of Year	$ 1,411,736	$ 961,512	$ 1,151,497	$ 905,169	$ 308,237

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
98.6 %	99.5 %	99.6 %	99.6 %	99.6 %
0.0	0.2	0.1	-	-
1.1	0.3	0.2	0.2	0.3
0.3	-	0.1	0.2	0.1
100.0	100.0	100.0	100.0	100.0
0.0	-	-	-	-
1.2	1.9	2.0	1.9	4.6
0.3	2.7	3.8	0.5	0.7
41.1	49.7	34.5	14.3	35.6
41.3	56.0	46.3	49.7	60.3
-	9.2	-	-	-
-	5.1	-	-	-
83.9	124.6	86.6	66.4	101.2
16.1 %	(24.6) %	13.4 %	33.6 %	(1.2) %

Harris County Municipal Utility District No. 406

Board Members, Key Personnel and Consultants

Year Ended September 30, 2018

Complete District mailing address:	Harris County Municipal Utility District No. 406 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027	
District business telephone number:	713.860.6400	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):		July 23, 2018
Limit on fees of office that a director may receive during a fiscal year:		$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Bruce Arendale	Elected 05/18-05/22	$ 2,850	$ 949	President
Charles Garibay	Elected 05/18-05/22	2,550	1,943	Vice President
David Stevenson	Elected 05/16-05/20	1,500	0	Secretary
Victor Crosswell	Elected 05/16-05/20	900	37	Assistant Vice President
Judd Harrison	Elected 05/16-05/20	2,550	0	Assistant Secretary

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

Harris County Municipal Utility District No. 406
Board Members, Key Personnel and Consultants (Continued)
Year Ended September 30, 2018

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	08/11/06	$ 173,977 349,081	General Counsel Bond Counsel
BGE, Inc.	08/11/06	207,866	Engineer
BKD, LLP	06/03/08	44,700	Auditor
District Data Services, Inc.	08/11/06	20,648	Bookkeeper
Harris County Appraisal District	Legislative Action	26,928	Appraiser
Hays Utility South Corporation	06/06/08	314,299	Operator
Hilltop Securities Inc.	08/11/06	257,882	Former Financial Advisor
Post Oak Municipal Advisors	05/18/18	0	Financial Advisor
Utility Tax Service, LLC	08/11/06	8,695	Tax Assessor/ Collector

Investment Officer			
Stephanie Viator	03/04/08	N/A	Bookkeeper