

OFFICIAL STATEMENT DATED NOVEMBER 5, 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. SEE "TAX MATTERS— QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

NEW ISSUE-Book-Entry Only

Insured Rating (AGM): S&P "AA" (stable outlook)
Moody's "A2" (stable outlook)
Underlying Rating: Moody's "A3"
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

\$4,505,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS
SERIES 2019A

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 64 (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, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The bonds are subject to Investment Considerations described herein. See "INVESTMENT CONSIDERATIONS."

Dated Date: December 1, 2019

Due: March 1, as shown below

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

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



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

MATURITY SCHEDULE

Table with 10 columns: Due (March 1), Principal Amount, Interest Rate, Initial Reoffering Yield (c), CUSIP Number (b), Due (March 1), Principal Amount, Interest Rate, Initial Reoffering Yield (c), CUSIP Number (b). Rows include 2020-2024 maturities and 2025-2034 maturities.

\$290,000 Term Bonds due March 1, 2029 (a), 414937 MK5 (b), 2.250% Interest Rate, 2.400% Yield (c)
\$660,000 Term Bonds due March 1, 2031 (a), 414937 MM1 (b), 3.000% Interest Rate, 2.270% Yield (c)

- (a) Bonds maturing on or after March 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on March 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS—Redemption Provisions."
(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
(c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. See "LEGAL MATTERS." Certain legal matters will be reviewed by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about December 4, 2019.

SAMCO CAPITAL

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### USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019, for further information.

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

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

## OFFICIAL STATEMENT SUMMARY

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

### HURRICANE HARVEY

*General...*

The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District (hereinafter defined) 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.

*Impact on the District...*

According to Municipal Operations & Consulting, Inc. (the "Operator") and Edminster, Hinshaw, Russ and Associates, Inc. (the "Engineer"), the District's water and sewer system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, to the best knowledge of the District, approximately 110 homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey, and no commercial properties experienced flooding.

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—Recent Extreme Weather Events; Hurricane Harvey."

### THE DISTRICT

*Description...*

Harris County Municipal Utility District No. 64 (the "District") is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), dated December 21, 1976, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 514 acres of land. See "THE DISTRICT."

*Location...*

The District is located in Harris County, approximately 25 miles west of the central downtown business district of the City of Houston and two miles east of the City of Katy. The District is also within the boundaries of the Katy Independent School District. Access to the District is provided by Interstate Highway 10. The District is located wholly within the extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT."

*Status of Development...*

The District encompasses approximately 514 acres of land, of which approximately 291 acres have been developed for single family residential purposes, approximately 10 acres have been developed for multi-family residential purposes, approximately 62 acres have been developed for commercial purposes and approximately 24 acres have been developed as an elementary school for the Katy Independent School District and a charter school, both of which are not subject to taxation by the District. The District also has 32 acres of land in easements, plant sites, recreational facilities and rights-of-way, and approximately 95 acres of reserves owned by multiple parties, none of which have reported development plans to the District, provided with water, sanitary sewer, and drainage facilities or trunk utilities, upon which no vertical improvements have been constructed. Recreational amenities within the District include two recreation sites with two swimming pools, a basketball court, a sand volleyball court, a park, and a trail system around two amenity/detention lakes. The recreational amenities, with the exception of the park and amenity/detention lakes, are owned and maintained by the subdivision's homeowners' associations.

Water, sanitary sewer and drainage facilities have been constructed to serve approximately 291 acres of single-family residential development known as Williamsburg Hamlet, Sections One and Four and Lakecrest, Sections One through Twelve (collectively containing approximately 1,363 single family residential lots). The average home value for 2019 is \$196,838. As of September 19, 2019, the District contained approximately 1,349 occupied single-family residences and 14 vacant homes.

In addition to the single-family development, the District has a day care center, a CVS pharmacy, Brammer's Athletic Wear, a Texaco gas station, an AutoZone, a day care, an athletics center, a Circle-K gas station, a banquet hall, a warehouse, a retail center, a health rehabilitation center and an Exxon Gas Station with a fast food restaurant adjacent. Additionally, a 258-unit rental apartment complex, The Marquis at Katy, is located on approximately 10 acres in the District. See "THE DISTRICT—Status of Development."

*Payment Record...*

The District previously issued six series of waterworks and sewer system combination unlimited tax and revenue bonds, five series of unlimited tax bonds, one series of waterworks and sewer system combination unlimited tax and revenue refunding bonds and three series of unlimited tax refunding bonds, of which \$14,765,000 remains outstanding as of October 1, 2019 (collectively, the "Outstanding Bonds"). The District has never defaulted in the timely payment of any previously issued bonds. See "FINANCIAL STATEMENT—Outstanding Bonds."

**THE BONDS**

*The Issue...*

The District's \$4,505,000 Unlimited Tax Refunding Bonds, Series 2019A (the "Bonds") are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds (the "Bond Order") adopted by the District's Board of Directors (the "Board"). The Bonds are scheduled to mature serially on March 1 in each of the years 2020 through 2025, inclusive, and 2032 through 2034, inclusive, and as term bonds on March 1 in each of the years 2029 and 2031 (the "Term Bonds") in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from December 1, 2019, and is payable March 1, 2020 (three months interest), and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See "THE BONDS."

*Book-Entry-Only System...*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."

<i>Redemption...</i>	Bonds maturing on or after March 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on March 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$4,335,000 of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” See “PLAN OF FINANCING—Refunded Bonds.” After the issuance of the Bonds, \$10,430,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”) and the District’s total indebtedness will be \$14,935,000. See “FINANCIAL STATEMENT—Outstanding Bonds.”
<i>Source of Payment...</i>	The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or agency other than the District. See “THE BONDS—Source of and Security For Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). Moody’s has also assigned an underlying rating of “A3” to the Bonds. An explanation of their ratings may be obtained from S&P or Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
<i>Bond Counsel...</i>	Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Escrow Agent...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

## INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

## SELECTED FINANCIAL INFORMATION

2019 Taxable Assessed Valuation.....	\$345,652,487	(a)
Gross Direct Debt Outstanding (After the Issuance of the Bonds).....	\$14,935,000	(b)
Estimated Overlapping Debt .....	<u>16,204,272</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$31,139,272	
Ratio of Gross Direct Debt to:		
2019 Taxable Assessed Valuation.....	4.32%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation.....	9.01%	
2019 Tax Rate:		
Debt Service .....	\$0.39	
Maintenance and Operations .....	<u>0.17</u>	
Total .....	\$0.56	
Average percentage of total tax collections (2014-2018).....	99.37%	
Average Annual Debt Service Requirement (2020-2036).....	\$1,096,150	
Maximum Annual Debt Service Requirement (2020).....	\$1,333,751	
Tax Rates Required to Pay Average Annual Debt Service (2020-2036) at a 95% Collection Rate		
Based upon 2019 Taxable Assessed Valuation .....	\$0.34/\$100 A.V.	
Tax Rates Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate		
Based upon 2019 Taxable Assessed Valuation .....	\$0.41/\$100 A.V.	
Status of water connections as of September 19, 2019:		
Single-family- active .....	1,349	
Single-family- inactive.....	17	
Multi-family (258 apartment units).....	1	
Commercial Connections .....	18	
Other Connections.....	<u>22</u>	
Total .....	1,407	

Estimated 2019 Population – 5,238 (d)

- (a) The Harris County Appraisal District (the “Appraisal District”) has certified \$340,210,646 of taxable value as of January 1, 2019. An additional \$5,441,841 of taxable value remains uncertified, subject to downward revision prior to certification. The 2019 Taxable Assessed Valuation shown throughout the Official Statement represents the certified value plus the uncertified value. See “TAX PROCEDURES.”
- (b) See “FINANCIAL STATEMENT—Outstanding Bonds.”
- (c) See “ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT.”
- (d) Based upon 3.5 persons per occupied single-family home and 2 persons per apartment unit.

## OFFICIAL STATEMENT

### **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64** *(A political subdivision of the State of Texas located within Harris County)*

**\$4,505,000**

### **UNLIMITED TAX REFUNDING BONDS SERIES 2019A**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 64 (the “District”) of its \$4,505,000 Unlimited Tax Refunding Bonds, Series 2019A (the “Bonds”).

The Bonds are issued by the District pursuant to the terms and conditions of a order adopted by the Board of Directors (the “Board”) of the District (the “Bond Order”), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of Texas Government Code, City of Houston Ordinance 97-416, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

## PLAN OF FINANCING

### **Purpose**

At a bond election held within the District on May 14, 2011, voters of the District authorized the issuance of \$15,640,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities and refunding purposes. The District currently has \$14,765,000 principal amount of unlimited tax bonds outstanding (the “Outstanding Bonds”).

The proceeds from the sale of the Bonds will be used to currently refund \$4,335,000 of the Outstanding Bonds (the “Refunded Bonds”) in order to achieve a net savings in the District’s annual debt service requirements. See “DEBT SERVICE REQUIREMENTS.” The Refunded Bonds are described in more detail herein under “Refunded Bonds.” A total of \$10,430,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds and the discharge of the Refunded Bonds (the “Remaining Outstanding Bonds”) and the District’s total indebtedness will be \$14,935,000. See “FINANCIAL STATEMENT—Outstanding Bonds.”





The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to provide for the discharge and defeasance of the Refunded Bonds. The Bond Order further provides that from the proceeds of the sale of the Bonds and other available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and used to purchase United States Treasury Obligations or other investments authorized by Chapter 1207, Texas Government Code (the “Escrowed Securities”). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

## **THE BONDS**

### **General**

The Bonds are dated December 1, 2019 and mature on March 1 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from December 1, 2019, at the rates shown on the cover hereof, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing March 1, 2020 (three months of interest) until the earlier of maturity or redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry- Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “Paying Agent/Registrar,” “Paying Agent,” or “Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK- ENTRY-ONLY SYSTEM” herein.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners (“Registered Owners”) as shown on the bond register (the “Register”) kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

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

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal payment office in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a thirty (30) day month and a three hundred sixty (360) day year.

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

The Bonds (together with the Outstanding Bonds (hereinafter defined) and such additional tax bonds as may hereafter be issued by the District) are payable from and secured by a pledge of 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 (see “TAX PROCEDURES”). Additionally, the Series 2008 Bonds are payable from the Net Revenues, if any, derived from the operation of the District's water and sewer operations. It is not anticipated that any significant Net Revenues, if any, will be available for the payment of debt service on the Bonds or the Outstanding Bonds. The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds.

The Bonds are obligations 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.

**Funds**

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

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

**No Arbitrage**

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

**Redemption Provisions**

*Mandatory Redemption:* The Bonds maturing on March 1 in each of the years 2029 and 2031 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on March 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 of such maturity as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

<b>\$290,000 Term Bonds</b>		<b>\$660,000 Term Bonds</b>	
<b>Due March 1, 2029</b>		<b>Due March 1, 2031</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2026	\$ 35,000	2030	\$ 155,000
2027	60,000	2031 (maturity)	505,000
2028	60,000		
2029 (maturity)	135,000		

*Optional Redemption:* The District reserves the right, at its option, to redeem the Bonds maturing on and after March 1, 2026, prior to their scheduled maturities, in whole or, from time to time in part, in integral multiples of \$5,000 on March 1, 2025, or 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 maturities and amounts of the Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by DTC in accordance with its procedures or, if the Bonds are no longer in the Book-Entry- Only System, the Paying Agent/Registrar by such method of random selection as it deems fair and appropriate.

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

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

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

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal payment office in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a thirty (30) day month and a three hundred sixty (360) day year.

### **Authority for Issuance**

At three elections held within the District, voters authorized a total of \$10,500,000 of principal amount of waterworks and sewer system combination unlimited tax and revenue bonds and \$5,000,000 of principal amount of unlimited tax bonds for purposes of acquiring or constructing water, sanitary sewer and drainage facilities, of which \$515,000 waterworks and sewer system combination unlimited tax and revenue bonds and no unlimited tax bonds remain authorized but unissued for purposes of construction and acquisition of facilities and improvements. At an election held within the District on May 14, 2011, voters of the District authorized \$15,640,000 in unlimited tax bonds for water, sanitary sewer and drainage facilities and refunding purposes and \$2,555,000 in unlimited tax bonds for park and recreational facilities, of which \$9,045,000 in principal amount for water, sewer and drainage facilities an refunding purposes and \$320,000 of principal amount of unlimited tax bonds for park and recreation facilities remain authorized but unissued after issuance of the Bonds. See “Issuance of Additional Debt” below. The Commission has authorized the District to sell the Bonds for the purposes described in “THE SYSTEM—Use and Distribution of Bond Proceeds.”

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, City of Houston Ordinance 97-416, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

### **Registration**

The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered bond will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.” So long as any Bonds remain outstanding, the District will maintain at least one Paying Agent/Registrar in the State of Texas for the purpose of maintaining the bond register on behalf of the District.

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

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

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

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

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent / Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

### **Registration**

The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one Paying Agent/Registrar in the State of Texas for the purpose of maintaining the bond register on behalf of the District.

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. After issuance of the Bonds, the District will have \$9,045,000 of principal amount of unlimited tax bonds for water, sewer and drainage facilities and refunding purposes will remain authorized but unissued from its May 14, 2011 election and \$15,000 of principal amount will remain authorized but unissued from its January 15, 1977, April 3, 1982 and November 5, 2002 elections. In addition, the District will have \$320,000 of principal amount of unlimited tax bonds for park and recreational facilities authorized but unissued. The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "INVESTMENT CONSIDERATIONS—Future Debt."

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Issuance of additional debt could dilute the investment security for the Bonds.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. It is not anticipated at this time that bonds will be issued by the District for fire-fighting purposes. Issuance of bonds for fire-fighting purposes could dilute the investment security for the bonds.

### **Financing Recreational Facilities**

Conservation and reclamation districts, such as the District, in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes.

The District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District, after such tax is approved at an election. The District intends to finance the maintenance and operation of its recreational facilities from funds in its General Fund.

In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopted a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents, including that of the Commission, allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from the net operating revenues without an election. The issuance of such bonds is subject to the rules and regulation to be adopted by the Commission.

At an election held on May 14, 2011, the District voters authorized the issuance of \$2,555,000 of bonds for parks and recreational purposes payable from ad valorem taxes. The District has sold one issue of such bonds and \$320,000 principal amount of unlimited tax bonds for park and recreational facilities remains authorized but unissued.

### **Annexation and Consolidation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the "City"), the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. Under the terms of the SPA (as herein after defined) between the District and the City, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "Strategic Partnership Agreement," below, for a description of the terms of the Strategic Partnership Agreement between the City and the District.

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

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

### **Strategic Partnership Agreement:**

On December 13, 2010, the District entered into a Strategic Partnership Agreement (the "SPA") with the City pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Residential development within the District is not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater, and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules.

Upon execution of the SPA, the City imposed the one percent (1%) retail City Sales Tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use the Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

## **Amendments**

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

## **Registered Owners' Remedies**

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

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

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

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

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

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

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

## **Defeasance**

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

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

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

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

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.



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

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

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the Commission, dated December 21, 1976, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervisory jurisdiction of the Commission.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish parks and recreational facilities for the residents of the District, to contract for or employ its own peace officers and, after approval by the City of Houston, 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. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities.

The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park and recreational facilities, roads, firefighting, and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the Planning Commission of the City and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

### **Description and Location**

The District consists of approximately 514 acres of land. The District is located in Harris County approximately 25 miles west of the central downtown business district of the City and 2 miles east of the City of Katy and lies wholly within the extraterritorial jurisdiction of the City. The District is also within the boundaries of the Katy Independent School District. Access to the District is provided by Interstate Highway 10.

### **Status of Development**

The District encompasses approximately 514 acres of land, of which approximately 291 acres have been developed for single family residential purposes, approximately 10 acres have been developed for multi-family residential purposes, approximately 62 acres have been developed for commercial purposes and approximately 24 acres have been developed as an elementary school for the Katy Independent School District and a charter school, both of which are not subject to taxation by the District. The District also has approximately 32 acres of land in easements, plant sites, recreational facilities and rights-of-way, and approximately 95 acres of reserves owned by multiple parties, none of which have reported development plans to the District, provided with water, sanitary sewer, and drainage facilities or trunk utilities, upon which no vertical improvements have been constructed. Recreational amenities within the District include two recreation sites with two swimming pools, a basketball court, and trail system around two amenity/detention lakes. The recreational amenities are owned and maintained by the subdivision's homeowners' associations. The District has developed and maintains an approximately 3 acre site as a public park.

Water, sanitary sewer and drainage facilities have been constructed to serve approximately 291 acres of single-family residential development known as Williamsburg Hamlet, Sections One and Four and Lakecrest, Sections One through Twelve (collectively containing approximately 1,363 single family residential lots). Values of houses in the older sections are on the tax rolls of the District for the 2019 tax year averaging from approximately \$100,000 to \$200,000. As of September 19, 2019, the District contained approximately 1,349 occupied single-family residences and 14 vacant homes.

In addition to the single-family development, the District has a day care center, a CVS pharmacy, Brammer’s Athletic Wear, a Texaco gas station, an AutoZone, a retail center, a health rehabilitation center and an Exxon gas station with a fast food restaurant adjacent. Additionally, a 258-unit rental apartment complex, The Marquis at Katy, is located on approximately 10 acres in the District.

## **MANAGEMENT OF THE DISTRICT**

### **Board of Directors**

The District is governed by the Board of Directors, which has control over and management supervision of all affairs of the District. The directors and officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lisa Morton	President	May 2022
Larry Koser	Vice President	May 2020
Barbara Marten	Secretary	May 2022
Wendy Kirkle	Director	May 2020
Sandra Faz	Director	May 2020

All of the Directors listed above reside within the District or own property within the District. Directors are elected by the voters in the District for four-year staggered terms. Director elections are held only in even numbered years.

The District has no full time employees but instead contracts with the following entities for professional services.

### **Tax Assessor/Collector**

Land and improvements in 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 to collect the District’s taxes. Wheeler & Associates is currently serving in this capacity for the District.

### **Bookkeeper**

The District contracts with Myrtle Cruz, Inc. for bookkeeping services.

### **System Operator**

The District contracts with Municipal Operations & Consulting, Inc. for operations and maintenance services.

### **Engineer**

The consulting engineer for the District in connection with the design and construction of the District’s facilities is Edminster, Hinshaw, Russ and Associates, Inc.

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the Commission. The District’s audited financial statements for the fiscal year ending October 31, 2018 have been prepared by McCall Gibson Swedlund Barfoot, PLLC. See “APPENDIX A” for a copy of the District’s October 31, 2018 audited financial statements. The District has engaged McCall Gibson Swedlund Barfoot, PLLC to audit its financial statements for the fiscal year ended October 31, 2019.

### **Financial Advisor**

Masterson 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.

## **Attorney**

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as Bond Counsel in connection with the issuance of the Bonds.

## **THE SYSTEM**

### **Regulation**

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

### **Water Supply**

The District's water is supplied by the water plant which currently consists of a 1,500 gallon-per-minute ("gpm") well, 500,000 gallons of ground storage tank capacity, two 20,000 gallon hydropneumatic pressure tanks, and 6,000 gpm of booster pump capacity. The District also has four emergency interconnect agreements with various adjacent districts. According to the District's Engineer, the District has adequate water supply capacity to serve 2,500 equivalent single-family connections. The District currently has approximately 1,720 equivalent single-family connections.

### **Subsidence and Conversion to Surface Water Supply**

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is not located within the boundaries of the Authority, but participates in the Authority's GRP as a contract member. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP.

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

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

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

### **Wastewater Treatment**

The Williamsburg Regional Sewer Treatment Authority (the "Authority") was formed by agreements between Harris County Municipal Utility District No. 61 and West Harris County Municipal Utility District No. 2 on September 29, 1976, as amended November 1, 1980, to include the District and Harris County Municipal Utility Districts Nos. 62, 63, and 65 and West Harris County Utility District No. 5, for the purpose of sharing costs of operating the regional sewage treatment plant (the "Regional Plant") and sharing the construction costs of expanding the existing facilities. The agreement is for a period of forty years.

The District currently owns 16.78% or 515,000 gpd in the 3.0 mgd Regional Plant. According to the District's Engineer, the District currently has adequate wastewater treatment capacity to serve 2,288 equivalent single-family connections. The District currently has approximately 1,712 equivalent single-family connections and is estimated to have 2,276 equivalent single-family connections at full build-out of the current acreage in the District. Any additional acreage annexed into the District could require additional capacity.

The Regional Plant is currently operating at less than half of its capacity. Several districts which participate in the Regional Plant have committed capacity in the facility and because of current development in the area are not able to sell their committed capacity in the Regional Plant. In order to issue additional wastewater capacity commitments without an expansion to the Regional Plant, the participating districts of the Authority have adopted the Fourth Amendment to their Contract. Section 4.4 of the Fourth Amendment describes the necessary procedure that any district requesting use of surplus capacity must adhere to. The District obtained surplus capacity from the Authority in the amount of 70,000 gpd of additional capacity.

### **100-Year Flood Plain**

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

### **Drainage**

The District is located within the Mason Creek watershed. Prior to development, surface drainage was accomplished by overland flow and natural drainage ditches or swales that outfall into Mason Creek. Mason Creek is a Harris County Flood Control District ("HCFCD") maintained channel.

Conveyance of sheet flow runoff to the storm sewer are supplemented by a system of curb, gutter, and inlet street paving. The internal storm sewers are designed to convey the runoff from a 2-year rainfall event with velocities ranging from 3 to 8 feet per second (fps). Internal outfall sewers are designed to convey the runoff from a 100-year rainfall event to the detention basins with velocities ranging from 3 to 8 fps.

The District contains a storm water drainage channel that is designed in accordance with the HCFCF District standards. The drainage channel has one (1) separate outfall location that ultimately discharges into Mason Creek. Internal storm sewer pipe includes 24-Inch to 72-Inch R/G, RCP Storm Sewer.

HCFCF requires a storm-water quality facility for the drainage channel’s outfall into Mason Creek. There is a floatables collection screen at the drainage channel’s outfall into Mason Creek.

**PARK SYSTEM**

Proceeds from previously issued bonds were used to acquire approximately three acres for a park which includes a pavilion, exercise equipment, playground equipment and lighting along a jogging path.

**UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
1/15/77, 4/3/82, 11/5/02, 5/14/11	Water, Sanitary Sewer and Drainage and Refunding	\$31,140,000	\$22,095,000*	\$9,045,000
5/14/11	Park and Recreational Facilities	\$2,555,000	\$2,235,000	\$320,000

\* Includes the Bonds.

## FINANCIAL STATEMENT

2019 Taxable Assessed Valuation.....	\$345,652,487	(a)
Gross Direct Debt Outstanding (After the Issuance of the Bonds).....	\$14,935,000	(b)
Estimated Overlapping Debt .....	<u>16,204,272</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	<u>\$31,139,272</u>	
Ratio of Gross Direct Debt to:		
2019 Taxable Assessed Valuation.....		4.32%

Area of District – Approximately 514 Acres  
Estimated 2019 Population – 5,238 (d)

- (a) The Harris County Appraisal District (the “Appraisal District”) has certified \$340,210,646 of taxable value as of January 1, 2019. An additional \$5,441,841 of taxable value remains uncertified, subject to downward revision prior to certification. The 2019 Taxable Assessed Valuation shown throughout the OFFICIAL STATEMENT represents the certified value plus the uncertified value. See “TAX PROCEDURES.”
- (b) See “—Outstanding Bonds” herein.
- (c) See “ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT.”
- (d) Based upon 3.5 persons per occupied single-family home and 2 persons per apartment unit.

### **Cash and Investment Balances** (unaudited as of October 9, 2019)

Operating Fund	Cash and Temporary Investments	\$3,204,090
Capital Fund	Cash and Temporary Investments	\$ 262,343
Debt Service Fund	Cash and Temporary Investments	\$ 778,856 (a)

- (a) Balance gives effect to the payment of all debt service due on the Outstanding Bonds in 2019. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

### **Investments of the District**

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

**Outstanding Bonds**

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2008	\$ 3,520,000	\$ 70,000		\$ 70,000
2012 (a)	4,025,000	2,210,000	\$ 1,810,000	400,000
2012A	2,700,000	2,550,000	2,525,000	25,000
2014 (a)	1,555,000	1,160,000		1,160,000
2015 (a)	4,070,000	3,770,000		3,770,000
2015A	2,235,000	1,860,000		1,860,000
2015B	1,910,000	1,610,000		1,610,000
2019	1,535,000	1,535,000		1,535,000
<b>Total</b>	<b>\$ 21,550,000</b>	<b>\$ 14,765,000</b>	<b>\$ 4,335,000</b>	<b>\$ 10,430,000</b>
The Bonds				<u>4,505,000</u>
The Bonds and Remaining Outstanding Bonds				<u>\$ 14,935,000</u>

(a) Unlimited Tax Refunding Bonds.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,599,402,125	8/31/2019	0.07%	\$ 1,119,581
Harris County Flood Control District.....	83,075,000	8/31/2019	0.07%	58,153
Harris County Department of Education.....	6,320,000	8/31/2019	0.07%	4,424
Harris County Hospital District.....	57,300,000	8/31/2019	0.07%	40,110
Port of Houston Authority.....	593,754,397	8/31/2019	0.07%	415,628
Katy Independent School District.....	1,843,845,000	8/31/2019	0.79%	14,566,376
Total Estimated Overlapping Debt.....				\$ 16,204,272
The District.....	14,935,000 (a)	Current	100.00%	14,935,000
Total Direct and Estimated Overlapping Debt.....				\$ 31,139,272

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Taxable Assessed Valuation of \$345,652,487..... 9.01%

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

**Overlapping Tax Rates for 2019**

	Tax Rate per \$100 of <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority).....	\$ 0.61670
Harris County Emergency Services District No. 48.....	0.10000
Katy Independent School District.....	<u>1.44310</u>
Total Overlapping Tax Rate.....	\$ 2.15980
The District.....	<u>0.56000</u>
Total Tax Rate.....	\$ 2.71980

**TAX DATA**

**Tax Collections**

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of September 30, 2019 (a)	
				Amount	Percent
2014	\$ 221,409,733	\$ 0.69	\$ 1,527,696	\$ 1,524,676	99.80%
2015	250,888,779	0.69	1,731,126	1,727,247	99.78%
2016	275,167,409	0.63	1,733,548	1,728,262	99.70%
2017	305,104,954	0.58	1,757,862	1,750,566	99.58%
2018	319,743,891	0.58	1,838,680	1,815,603	98.74%
2019	340,210,646	0.56	1,905,180	(b)	(b)

- (a) Unaudited.  
(b) 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**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.39	\$ 0.41	\$ 0.41	\$ 0.46	\$ 0.51
Maintenance and Operations	0.17	0.17	0.17	0.17	0.18
Total	<u>\$ 0.56</u>	<u>\$ 0.58</u>	<u>\$ 0.58</u>	<u>\$ 0.63</u>	<u>\$ 0.69</u>



## **Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).  
Maintenance and Operations: \$0.20 per \$100 assessed valuation.

## **Debt Service Tax**

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. For the 2019 tax year, the District levied a debt service tax of \$0.39 per \$100 assessed valuation.

## **Maintenance Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Pursuant to an election held on January 15, 1977, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.20 per \$100 assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 in the amount of \$0.17 per \$100 assessed valuation.

## **Tax Exemptions**

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District has not exempted any percentage of the market value of any residential homesteads from taxation since its inception, but does grant an exemption of \$25,000 of assessed valuation for homesteads of persons 65 years of age or older and for certain disabled persons.

## **Additional Penalties**

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

## **Principal Taxpayers**

The following list of principal taxpayers was provided by the District's tax assessor/collector and represents the principal taxpayers' value as a percentage of the certified portion (\$340,210,646) of the 2019 Taxable Assessed Valuation. This represents ownership as of January 1, 2019. A principal taxpayer list related to the uncertified portion (\$5,441,841) of the 2019 Taxable Assessed Valuation, which is subject to review and downward adjustment prior to certification, is currently not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
CWS Katy LP at al	Apartment	\$ 25,562,191	7.40%
Lakecrest Manor Health Realty LLC	Land & Improvements	10,953,282	3.17%
BAW Athletic Wear LP	Land, Improvements & Personal	11,516,293	3.33%
Hardeman Family Joint Venture Ltd.	Land & Improvements	5,478,151	1.58%
ABS Supply Co. Inc.	Personal	5,402,812	1.56%
Westside Ventures Ltd.	Land & Improvements	4,315,354	1.25%
Faith Waters Development LLC	Land & Improvements	3,339,061	0.97%
SP Partners Katy Holdings LLC	Land	3,334,608	0.96%
SNY Holdings LLC	Land & Improvements	2,585,053	0.75%
Green Valley Farms LLC	Land & Improvements	2,514,355	0.73%
Total		\$ 75,001,160	21.70%

**Summary of Assessed Valuation**

The following summary of the 2019, 2018 and 2017 Certified Taxable Assessed Valuations are provided by the District's Tax Assessor/Collector based on information provided by the Appraisal District and contained in the 2019, 2018 and 2017 tax rolls of the District. A breakdown of the uncertified portion (\$5,441,841) of the 2019 Taxable Assessed Valuation, of \$345,652,487, which is subject to review and downward adjustment prior to certification, is currently not available. Differences in totals may vary slightly from other information herein due to differences in dates of data.

	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation
Land	\$ 71,787,569	\$ 65,840,578	\$ 61,927,085
Improvements	283,501,994	270,772,113	262,517,815
Personal Property	11,954,379	9,410,834	6,765,707
Exemptions	<u>(27,033,296)</u>	<u>(26,279,634)</u>	<u>(26,105,653)</u>
Certified Total	\$ 340,210,646	\$ 319,743,891	\$ 305,104,954
Uncertified Value	<u>5,441,841</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 345,652,487</u></u>	<u><u>\$ 319,743,891</u></u>	<u><u>\$ 305,104,954</u></u>

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation, which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2019 Taxable Assessed Valuation of \$345,652,487 (\$340,210,646 of certified value plus \$5,441,841 of uncertified value). The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service.

Average Annual Debt Service Requirement (2020-2036) .....	\$1,096,150
\$0.34 Tax Rate on the 2019 Taxable Assessed Valuation .....	\$1,116,458
Maximum Annual Debt Service Requirement (2020).....	\$1,333,751
\$0.41 Tax Rate on the 2019 Taxable Assessed Valuation .....	\$1,346,316

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

## TAX PROCEDURES

### **Authority to Levy Taxes**

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

### **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; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For the 2019 tax year, the District has adopted a residential homestead exemption in the amount of \$25,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. 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. See “TAX DATA.”

Partially disabled veterans 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. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. 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.

*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 District has never granted such a general homestead exemption. See “TAX DATA.”

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

### **Tax Abatement**

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

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

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

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

### **District and Taxpayer Remedies**

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

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

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

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

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

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

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent 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 than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

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

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

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

### **District's Rights in the Event of Tax Delinquencies**

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

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

## WATER AND SEWER OPERATIONS

### General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Additionally, the Series 2008 Bonds are payable from the Net Revenues, if any, derived from the operation of the District's water and sewer operations. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds or the Remaining Outstanding Bonds.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's System. Such summary is based upon information obtained from the District's audited financial statements, and, for the period ending September 30, 2019, from the District's bookkeeper. Reference is made to such records and statements for further and more complete information. See APPENDIX A hereto for the District's Audited Financial Statements for the fiscal year ended October 31, 2018.

	11/1/2018 to 9/30/2019 (a)	Fiscal Year Ended October 31			
		2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 509,198	\$ 541,371	\$ 460,611	\$ 452,072	\$ 397,522
Water Service	258,206	258,500	249,840	235,171	275,672
Wastewater Service	697,695	756,595	715,327	709,182	708,939
Regional Water Authority Fees	385,025	433,724	419,869	445,828	375,991
Sales Tax Revenues	28,851	24,173	25,917	30,578	17,323
Penalty and Interest	24,345	28,100	29,954	35,234	29,824
Tap Connection and Inspection Fees	4,330	61,690	94,553	394,035	51,258
Investment Income	59,836	38,908	15,034	7,905	5,820
Miscellaneous Revenues	60,916	56,837	61,786	76,853	40,532
<b>Total Revenues</b>	<b>\$ 2,028,402</b>	<b>\$ 2,199,898</b>	<b>\$ 2,072,891</b>	<b>\$ 2,386,858</b>	<b>\$ 1,902,881</b>
<b>Expenditures</b>					
Professional Fees	\$ 166,161	\$ 214,197	\$ 182,753	\$ 148,153	\$ 248,162
Contracted Services	414,917	433,239	416,333	469,721	421,318
Purchased Water Services	-	4,315	498,564	563,488	218,671
Purchased Wastewater Services	134,871	206,404	205,794	217,440	193,648
Utilities	49,286	56,203	12,701	11,703	10,960
Regional Water Authority Assessment	406,016	370,647	-	-	191,849
Repairs and Maintenance	369,241	368,862	215,557	198,145	260,383
Other	139,210	209,261	167,272	232,940	114,906
Capital Outlay	-	478,529	593,830	6,441	87,128
<b>Total Expenditures</b>	<b>\$ 1,679,702</b>	<b>\$ 2,341,657</b>	<b>\$ 2,292,804</b>	<b>\$ 1,848,031</b>	<b>\$ 1,747,025</b>
<b>Net Revenues</b>	<b>\$ 348,700</b>	<b>\$ (141,759)</b>	<b>\$ (219,913)</b>	<b>\$ 538,827</b>	<b>\$ 155,856</b>
<b>Other Sources (Interfund Transfer)</b>	<b>\$ -</b>	<b>\$ (398,417)</b>	<b>-</b>	<b>\$ 1,016,905</b>	<b>-</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 2,968,458</b>	<b>\$ 3,508,634</b>	<b>\$ 3,728,547</b>	<b>\$ 2,172,815</b>	<b>\$ 2,016,959</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 3,317,158</b>	<b>\$ 2,968,458</b>	<b>\$ 3,508,634</b>	<b>\$ 3,728,547</b>	<b>\$ 2,172,815</b>

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

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$4,335,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 1,353,472	\$ 173,400	\$ 60,000	\$ 93,679	\$ 153,679	\$ 1,333,751
2021	1,343,100	594,800	455,000	117,480	572,480	1,320,780
2022	1,328,785	587,400	460,000	103,755	563,755	1,305,140
2023	1,300,133	569,800	460,000	89,955	549,955	1,280,288
2024	1,295,036	557,100	460,000	76,155	536,155	1,274,091
2025	1,283,556	279,600	190,000	66,405	256,405	1,260,361
2026	1,286,844	120,500	35,000	63,161	98,161	1,264,505
2027	1,283,733	144,000	60,000	62,093	122,093	1,261,825
2028	1,264,067	142,000	60,000	60,743	120,743	1,242,809
2029	1,256,831	213,500	135,000	58,549	193,549	1,236,880
2030	1,256,744	233,000	155,000	54,705	209,705	1,233,449
2031	1,114,081	570,000	505,000	44,805	549,805	1,093,886
2032	1,079,159	550,000	500,000	30,980	530,980	1,060,139
2033	1,048,641	530,000	490,000	18,605	508,605	1,027,246
2034	997,975	510,000	480,000	6,240	486,240	974,215
2035	236,391	-	-	-	-	236,391
2036	228,797	-	-	-	-	228,797
<b>Total</b>	<b>\$ 18,957,343</b>	<b>\$ 5,775,100</b>	<b>\$ 4,505,000</b>	<b>\$ 947,309</b>	<b>\$ 5,452,309</b>	<b>\$ 18,634,552</b>

Average Annual Debt Service Requirements (2020-2036) .....\$1,096,150  
 Maximum Annual Debt Service Requirements (2020) .....\$1,333,751

## INVESTMENT CONSIDERATIONS

### General

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

### Severe Weather

The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced 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 Operator and the Engineer, the District's water and sewer system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, to the best knowledge of the District, approximately 110 homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey, and no commercial properties experienced flooding.



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

### **Specific Flood Type Risks**

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

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

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

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and commercial property. The market value of such properties is related to economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential and commercial properties of this type can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the values of existing homes. Recent changes in federal tax limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof.

### **Impact on District Tax Rate**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Taxable Assessed Valuation is \$345,652,487 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the maximum annual debt service requirement will be \$1,333,751 (2020) and the average annual debt service requirement will be \$1,096,150 (2020-2036) (see "DEBT SERVICE REQUIREMENTS"). Assuming no increase or decrease from the 2019 Preliminary Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.41 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$1,333,751 and a tax rate of \$0.34 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,096,150. The reduces the above calculations to \$0.41 per \$100 assessed valuation and \$0.34 per \$100 assessed valuation, respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2018 Certified Taxable Assessed Valuation and the 2019 Preliminary Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

### **Tax Collections Limitations**

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

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

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

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

The District may not be placed into bankruptcy involuntarily.

### **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$9,045,000 principal amount of unlimited tax bonds for purposes of acquiring and constructing water, sanitary sewer and drainage facilities and for refunding purposes, and the District may issue additional bonds which may be voted hereafter. The District also reserves in the Bond Order the right to issue the remaining \$515,000 principal amount of combination unlimited tax and revenue bonds authorized but unissued for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and, \$320,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities, and the District may issue additional bonds which may be voted hereafter. The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

### **Environmental Regulations**

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

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

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

*Air Quality Issues:* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-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 also 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 sixty days after its publication in the Federal Register.

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 13, 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.

### **Marketability of the Bonds**

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

### **Changes in Tax Legislation**

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

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

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

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

The District has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and “A2” (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer (the “Insurer”) and its claim paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

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

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

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

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

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

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody’s has also assigned an underlying rating of “A3” to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P or Moody’s, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## MUNICIPAL BOND INSURANCE

### **Bond Insurance Policy**

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

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

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

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

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

### *Current Financial Strength Ratings*

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On June 27, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

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

### *Capitalization of AGM*

At June 30, 2019:

- The policyholders' surplus of AGM was approximately \$2,530 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,082 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

### *Incorporation of Certain Documents by Reference*

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019).

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

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

### *Miscellaneous Matters*

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



## LEGAL MATTERS

### Legal Opinion

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

### Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds,” “THE BONDS,” “TAX PROCEDURES,” “THE DISTRICT—General,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

### No-Litigation Certificate

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for 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.

### No Material Adverse Change

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

## TAX MATTERS

### Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Future and Proposed Legislation**

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

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

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

## **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.”

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

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$4,542,645.73 (representing the par amount of the Bonds of \$4,505,000.00, plus a net premium on the Bonds of \$77,266.95, less an Underwriter’s discount of \$39,621.22) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

### **Prices and Marketability**

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

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

## **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the 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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## **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 Developer, 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 such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under “Certification of Official Statement.” Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### **Financial Advisor**

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

“THE DISTRICT” - Edminster, Hinshaw, Russ and Associates, Inc. (“Engineer”) and Records of the District (“Records”); “THE SYSTEM” - Engineer; “FINANCIAL STATEMENT” - Harris County Appraisal District and Records; “ESTIMATED OVERLAPPING DEBT STATEMENT” - Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” – Harris County Appraisal District and Wheeler & Associates; “MANAGEMENT OF THE DISTRICT” - District Directors; “WATER AND SEWER OPERATIONS” - Records; “DEBT SERVICE REQUIREMENTS” - Financial Advisor; “THE BONDS (except for “Book-Entry-Only System”),” “THE DISTRICT—General,” “TAX PROCEDURES,” “LEGAL MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” - Smith, Murdaugh, Little & Bonham, L.L.P.

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.

**Auditor:** The District's audited financial statements for the year ended October 31, 2018, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant. See “APPENDIX A” for a copy of the District's October 31, 2018, audited financial statements.

**Engineer:** The information contained in this Official Statement relating to engineering and to the description of the District's water and sewer system and, in particular that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” has been provided by Edminster, Hinshaw, Russ and Associates, Inc., and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the relating to the historical breakdown of the District's assessed value and sections entitled "TAX DATA— Summary of Assessed Valuation" and "—Principal Taxpayers" has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as an expert in appraising the values of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical tax collections of the District's and particularly the section entitled "TAX DATA—Tax Collections" has been provided by Wheeler & Associates and is included herein in reliance upon the authority of Wheeler & Associates as an expert in assessing and collecting taxes.

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

### **Updating the Official Statement**

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

### **Certification of Official Statement**

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide annually to the MSRB, certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA," "WATER AND SEWER OPERATIONS" and "DEBT SERVICE REQUIREMENTS" (most of which information is contained in the District's annual audit report and supplemental schedules and in APPENDIX A (the audit). The District will update and provide this information to EMMA 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 information and operating data which is customarily prepared by the District by the required time, 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 Order 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 October 31. Accordingly, it must provide updated information by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB via EMMA of the change.

### **Specified Event Notices**

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation, as defined in the Rule, 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 within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

### **Compliance With Prior Undertakings**

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

### **MISCELLANEOUS**

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

/s/ Lisa Morton  
President, Board of Directors

ATTEST:

/s/ Barbara Marten  
Secretary, Board of Directors



**APPENDIX A**

**District Audited Financial Statements for the fiscal year ended October 31, 2018**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**OCTOBER 31, 2018**

*McCall Gibson Swedlund Barfoot PLLC*

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**OCTOBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris County Municipal Utility District No. 64  
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. 64 (the "District"), as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## Opinions

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

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

February 13, 2019

# **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED OCTOBER 31, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 64's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2018. Please read it in conjunction with the District's financial statements.

#### **USING THIS ANNUAL REPORT**

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

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

#### **FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Special Revenue Fund accounts for financial resources collected and administered by the District for the operations of a joint water plant. This fund was closed during the current fiscal year. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,170,765 as of October 31, 2018.

A portion of the District's net position reflects its net investment in capital assets (e.g. water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

The following is a comparative analysis of government-wide changes in net position:



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

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

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 6,370,336	\$ 6,901,120	\$ (530,784)
Capital Assets (Net of Accumulated Depreciation)	<u>13,162,278</u>	<u>12,975,564</u>	<u>186,714</u>
Total Assets	<u>\$ 19,532,614</u>	<u>\$ 19,876,684</u>	<u>\$ (344,070)</u>
Deferred Outflows of Resources	<u>\$ 274,432</u>	<u>\$ 298,511</u>	<u>\$ (24,079)</u>
Long -Term Liabilities	\$ 13,524,920	\$ 14,391,896	\$ 866,976
Other Liabilities	<u>1,371,330</u>	<u>1,577,678</u>	<u>206,348</u>
Total Liabilities	<u>\$ 14,896,250</u>	<u>\$ 15,969,574</u>	<u>\$ 1,073,324</u>
Deferred Inflows of Resources	<u>\$ 1,740,031</u>	<u>\$ 1,622,254</u>	<u>\$ (117,777)</u>
Net Position:			
Net Investment in Capital Assets	\$ (753,403)	\$ (1,921,782)	\$ 1,168,379
Restricted	937,553	980,263	(42,710)
Unrestricted	<u>2,986,615</u>	<u>3,524,886</u>	<u>(538,271)</u>
Total Net Position	<u>\$ 3,170,765</u>	<u>\$ 2,583,367</u>	<u>\$ 587,398</u>

The following table provides a summary of the District's operations for the years ending October 31, 2018, and October 31, 2017. The District's net position increased \$587,398 during the current fiscal year.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,853,024	\$ 1,739,127	\$ 113,897
Charges for Services	1,626,235	1,524,589	101,646
Other Revenues	<u>109,281</u>	<u>91,257</u>	<u>18,024</u>
Total Revenues	<u>\$ 3,588,540</u>	<u>\$ 3,354,973</u>	<u>\$ 233,567</u>
Expenses for Services	<u>3,001,142</u>	<u>2,987,393</u>	<u>(13,749)</u>
Change in Net Position	\$ 587,398	\$ 367,580	\$ 219,818
Net Position, Beginning of Year	<u>2,583,367</u>	<u>2,215,787</u>	<u>367,580</u>
Net Position, End of Year	<u>\$ 3,170,765</u>	<u>\$ 2,583,367</u>	<u>\$ 587,398</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED OCTOBER 31, 2018**

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

The District's combined fund balances as of October 31, 2018, were \$4,160,382, a decrease of \$567,799 from the prior year.

The General Fund fund balance decreased by \$540,176, primarily due to operating and capital expenditures exceeding service revenues and recording a transfer to the Capital Projects Fund.

The Debt Service Fund fund balance decreased by \$52,102, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$24,479, primarily due to the transfer recorded from the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors amended the budget during the current fiscal year to add estimated park maintenance costs. Actual revenues were \$181,898 more than budgeted revenues. Actual expenditures were \$390,727 more than budgeted expenditures.

**CAPITAL ASSETS**

Capital assets as of October 31, 2018, total \$13,162,278 (net of accumulated depreciation) and include land and the administration building, as well as the water, wastewater and drainage systems. Completed projects include Callegari park, recreational facilities and Williamsburg Sewage Treatment Plant rehabilitation. Construction in progress includes Lakecrest Detention Facility rehabilitation.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 449,796	\$ 449,796	\$
Construction in Progress	412,159	1,958,500	(1,546,341)
Capital Assets, Net of Accumulated Depreciation:			
Water System	4,965,944	5,086,395	(120,451)
Wastewater System	5,229,384	5,269,830	(40,446)
Parks and Recreation	2,104,995	211,043	1,893,952
Total Net Capital Assets	\$ 13,162,278	\$ 12,975,564	\$ 186,714

Additional information on the District's capital assets can be found in Note 6 of this report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total bond debt payable of \$14,060,000.

The changes in the debt position of the District during the fiscal year ended October 31, 2018, are summarized as follows:

Bond Debt Payable, November 1, 2017	\$ 14,880,000
Less: Bond Principal Paid	<u>820,000</u>
Bond Debt Payable, October 31, 2018	<u><u>\$ 14,060,000</u></u>

The District carries an underlying rating of “A-” on Series 2008, Series 2012 Refunding, Series 2012A and Series 2015 and an underlying rating of “A3” on Series 2015A and Series 2015B bonds. The Series 2008, Series 2012 Refunding, Series 2012A and Series 2015 Refunding bonds carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2015A and Series 2015B bonds carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual. The Series 2014 Refunding bonds are not rated. The above ratings reflect changes, if any, through October 31, 2018.

**CONTACTING THE DISTRICT’S MANAGEMENT**

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 64, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, TX 77019.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**OCTOBER 31, 2018**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>			
Cash	\$ 424,699	\$	\$ 157,452
Investments	2,716,395		792,671
Receivables:			
Property Taxes	527,744		1,279,353
Penalty and Interest on Delinquent Taxes			
Service Accounts (Net of Allowance for Uncollectible Accounts of \$750)	109,309		
Accrued Interest	1,715		
Due from Other Funds			6,368
Prepaid Costs	8,052		
Due from Other Governmental Units	75,762		
Advance for Regional Wastewater Treatment Plant Operations	10,000		
Land			
Construction in Progress			
Capital Assets (Net of Accumulated Depreciation)			
<b>TOTAL ASSETS</b>	<u>\$ 3,873,676</u>	<u>\$ - 0 -</u>	<u>\$ 2,235,844</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ - 0 -	\$ - 0 -
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 3,873,676</u>	<u>\$ - 0 -</u>	<u>\$ 2,235,844</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 212,640	\$ 794,791	\$	\$ 794,791
	3,509,066		3,509,066
	1,807,097		1,807,097
		22,628	22,628
	109,309		109,309
	1,715		1,715
	6,368	(6,368)	
	8,052		8,052
31,916	107,678		107,678
	10,000		10,000
		449,796	449,796
		412,159	412,159
		<u>12,300,323</u>	<u>12,300,323</u>
<u>\$ 244,556</u>	<u>\$ 6,354,076</u>	<u>\$ 13,178,538</u>	<u>\$ 19,532,614</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 274,432</u>	<u>\$ 274,432</u>
<u>\$ 244,556</u>	<u>\$ 6,354,076</u>	<u>\$ 13,452,970</u>	<u>\$ 19,807,046</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**OCTOBER 31, 2018**

	General Fund	Special Revenue Fund	Debt Service Fund
<b>LIABILITIES</b>			
Accounts Payable	\$ 170,537	\$	\$
Accrued Interest Payable			
Due to Other Governmental Units	4,219		
Due to Developers	56,875		
Due to Other Funds	6,368		
Due to Taxpayers			8,106
Security Deposits	139,053		
Long Term Liabilities:			
Due Within One Year			
Due After One Year			
<b>TOTAL LIABILITIES</b>	<b>\$ 377,052</b>	<b>\$ - 0 -</b>	<b>\$ 8,106</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Property Taxes	\$ 528,166	\$ - 0 -	\$ 1,280,370
 <b>FUND BALANCES</b>			
Nonspendable:			
Prepaid Costs	\$ 8,052	\$	\$
Advance For Regional Wastewater Treatment Plant Operations	10,000		
Restricted for Authorized Construction			
Restricted for Debt Service			947,368
Unassigned	2,950,406		
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,968,458</b>	<b>\$ - 0 -</b>	<b>\$ 947,368</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,873,676</b>	<b>\$ - 0 -</b>	<b>\$ 2,235,844</b>
 <b>NET POSITION</b>			
Net Investment in Capital Assets			
Restricted for Debt Service			
Unrestricted			
 <b>TOTAL NET POSITION</b>			

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 170,537	\$	\$ 170,537
		82,791	82,791
	4,219		4,219
	56,875	79,749	136,624
	6,368	(6,368)	
	8,106		8,106
	139,053		139,053
		830,000	830,000
		<u>13,524,920</u>	<u>13,524,920</u>
<u>\$ - 0 -</u>	<u>\$ 385,158</u>	<u>\$ 14,511,092</u>	<u>\$ 14,896,250</u>
<u>\$ - 0 -</u>	<u>\$ 1,808,536</u>	<u>\$ (68,505)</u>	<u>\$ 1,740,031</u>
\$	\$ 8,052	\$ (8,052)	\$
	10,000	(10,000)	
244,556	244,556	(244,556)	
	947,368	(947,368)	
	<u>2,950,406</u>	<u>(2,950,406)</u>	
<u>\$ 244,556</u>	<u>\$ 4,160,382</u>	<u>\$ (4,160,382)</u>	<u>\$ - 0 -</u>
<u>\$ 244,556</u>	<u>\$ 6,354,076</u>		
		\$ (753,403)	\$ (753,403)
		937,553	937,553
		<u>2,986,615</u>	<u>2,986,615</u>
		<u>\$ 3,170,765</u>	<u>\$ 3,170,765</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
OCTOBER 31, 2018**

Total Fund Balances - Governmental Funds \$ 4,160,382

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 13,162,278

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 274,432

Deferred inflows of resources related to property tax revenues and uncollected penalty and interest receivables on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District. 91,133

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (79,749)	
Accrued Interest Payable	(82,791)	
Bonds Payable Within One Year	(830,000)	
Bonds Payable After One Year	<u>(13,524,920)</u>	(14,517,460)
Total Net Position - Governmental Activities		<u>\$ 3,170,765</u>

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



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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	General Fund	Special Revenue Fund	Debt Service Fund
<b>REVENUES</b>			
Property Taxes	\$ 541,371	\$	\$ 1,306,801
Water Service	258,500	8,000	
Wastewater Service	756,595		
Regional Water Authority Fees	433,724		
Sales Tax Revenues	24,173		
Penalty and Interest	28,100		57,814
Tap Connection and Inspection Fees	61,690		
Investment Revenues	38,908	1	12,529
Miscellaneous Revenues	56,837		28
<b>TOTAL REVENUES</b>	<b>\$ 2,199,898</b>	<b>\$ 8,001</b>	<b>\$ 1,377,172</b>
<b>EXPENDITURES/EXPENSES</b>			
Service Operations:			
Professional Fees	\$ 214,197	\$	\$ 37,571
Contracted Services	433,239		45,480
Purchased Water Service	4,315		
Purchased Wastewater Service	206,404		
Utilities	56,203	4,314	
Regional Water Authority Assessment	370,647		
Repairs and Maintenance	368,862		
Depreciation			
Other	209,261	2	16,004
Capital Outlay	478,529		
Debt Service:			
Bond Principal			820,000
Bond Interest			510,219
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 2,341,657</b>	<b>\$ 4,316</b>	<b>\$ 1,429,274</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<b>\$ (141,759)</b>	<b>\$ 3,685</b>	<b>\$ (52,102)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ (398,417)	\$ (3,685)	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (540,176)</b>	<b>\$ -0-</b>	<b>\$ (52,102)</b>
<b>CHANGE IN NET POSITION</b>			
<b>FUND BALANCES/NET POSITION - NOVEMBER 1, 2017</b>	<b>3,508,634</b>		<b>999,470</b>
<b>FUND BALANCES/NET POSITION - OCTOBER 31, 2018</b>	<b>\$ 2,968,458</b>	<b>\$ -0-</b>	<b>\$ 947,368</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,848,172	\$ 4,852	\$ 1,853,024
	266,500	(4,315)	262,185
	756,595		756,595
	433,724		433,724
	24,173		24,173
	85,914	1,954	87,868
	61,690		61,690
978	52,416		52,416
	56,865		56,865
\$ 978	\$ 3,586,049	\$ 2,491	\$ 3,588,540
\$	\$ 251,768	\$	\$ 251,768
	478,719		478,719
	4,315	(4,315)	
	206,404		206,404
	60,517		60,517
	370,647		370,647
	368,862		368,862
		545,962	545,962
165	225,432		225,432
378,436	856,965	(856,965)	
	820,000	(820,000)	
	510,219	(17,388)	492,831
\$ 378,601	\$ 4,153,848	\$ (1,152,706)	\$ 3,001,142
\$ (377,623)	\$ (567,799)	\$ 1,155,197	\$ 587,398
\$ 402,102	\$ -0-	\$ -0-	\$ -0-
\$ 24,479	\$ (567,799)	\$ 567,799	\$
		587,398	587,398
220,077	4,728,181	(2,144,814)	2,583,367
\$ 244,556	\$ 4,160,382	\$ (989,617)	\$ 3,170,765

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED OCTOBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ (567,799)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	4,852
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	1,954
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(545,962)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	856,965
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	820,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	17,388
Change in Net Position - Governmental Activities	<u>\$ 587,398</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 64, Harris County, Texas, was created by the Texas Water Rights Commission, effective December 21, 1976, in accordance with Texas Water Code Chapter 54. The Board of Directors held its first meeting on December 22, 1976, and the first bonds were sold on September 20, 1977. The District was created to provide water and sewer services to property owners within the boundaries of the District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The District has entered into an agreement with West Harris County Municipal Utility District Nos. 2 and 5 and Harris County Municipal Utility District Nos. 61, 62, 63, 64 and 65 for wastewater service through the Williamsburg Regional Sewage Treatment Authority. Additional disclosure concerning this agreement is provided in Note 9.

Financial Statement Presentation

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

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Financial Statement Presentation (Continued)

Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

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

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

Government-Wide Financial Statements

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

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

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Items such as purchased water service and purchased wastewater service are eliminated to eliminate an overstatement of overall District operating costs and to eliminate an overstatement of revenues for water and wastewater services.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Fund Financial Statements

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

Governmental Funds

The District has four governmental funds and considers each of them to be a major fund.

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

Special Revenue Fund – To account for financial resources collected and administered by the District for the operation of the joint water plant which is a joint venture of the District. This fund was closed during the current fiscal year.

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

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include the 2017 tax levy collections during the period October 1, 2017, to October 31, 2018. In addition, taxes collected from November 1, 2017, to October 31, 2018, for the 2016 and prior tax levies are included in revenue. The 2018 tax levy has been fully deferred.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as an other financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of October 31, 2018, the District’s General Fund owed the Debt Service Fund \$272 for the over transfer of maintenance tax collections. The General Fund Owed the Debt Service Fund \$6,096 for surplus bond proceeds from the Series 2015 Refunding bond sale. During the current fiscal year, the Special Revenue Fund was closed with a transfer of \$3,685 to the General Fund. The District also recorded a transfer from the General Fund to the Capital Projects Fund in the amount of \$402,102 to remove a prior year interfund liability.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Machinery and Equipment	5-20

Budgeting

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

Pensions

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position. Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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

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

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

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

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

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

	Series 2008	Refunding Series 2012
Amount Outstanding – October 31, 2018	\$ 150,000	\$ 2,585,000
Interest Rates	5.25%	4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2020	March 1, 2019/2025
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2017*	March 1, 2020*

\* Or any date thereafter in such order as the District may determine, callable at par plus unpaid accrued interest, in whole or in part, at the option of the District. Series 2008 term bonds maturing March 1, 2020, are subject to mandatory redemption beginning March 1, 2018.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

	Series 2012A	Refunding Series 2014
Amount Outstanding – October 31, 2018	\$ 2,575,000	\$ 1,210,000
Interest Rates	3.00%-4.00%	2.79%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2034	March 1, 2019/2028
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2020*	March 1, 2022*
	Refunding Series 2015	Series 2015A
Amount Outstanding – October 31, 2018	\$ 3,845,000	\$ 1,985,000
Interest Rates	2.00%-4.00%	2.00%-3.375%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2030	March 1, 2019/2034
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2023*	March 1, 2022*

\* Or any date thereafter in such order as the District may determine, callable at par plus unpaid accrued interest, in whole or in part, at the option of the District. Series 2012A term bonds maturing March 1, 2028, March 1, 2030, and March 1, 2034, are subject to mandatory redemption beginning March 1, 2021, March 1, 2029, and March 1, 2031, respectively. Series 2014 Refunding term bonds maturing March 1, 2028, are subject to mandatory redemption beginning March 1, 2015. Series 2015 Refunding term bonds maturing March 1, 2025, are subject to mandatory redemption beginning March 1, 2024. Series 2015A term bonds maturing March 1, 2030, March 1, 2032, and March 1, 2034, are subject to mandatory redemption beginning March 1, 2027, March 1, 2031, and March 1, 2033, respectively.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

	Series 2015B
Amount Outstanding – October 31, 2018	\$ 1,710,000
Interest Rates	2.00%-4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2034
Interest Payment Dates	March 1/ September 1
Callable Dates	March 1, 2023*

\* Or any date thereafter in such order as the District may determine, callable at par plus unpaid accrued interest, in whole or in part, at the option of the District.

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

	November 1, 2017	Additions	Retirements	October 31, 2018
Bonds Payable	\$ 14,880,000	\$	\$ 820,000	\$ 14,060,000
Unamortized Discounts	(59,549)		(3,633)	(55,916)
Unamortized Premiums	391,445		40,609	350,836
Bonds Payable, Net	\$ 15,211,896	\$ - 0 -	\$ 856,976	\$ 14,354,920
		Amount Due Within One Year		\$ 830,000
		Amount Due After One Year		13,524,920
		Bonds Payable, Net		\$ 14,354,920

As of October 31, 2018, the District had authorized but unissued bonds in the amount of \$11,265,000 for utility facilities and refunding bonds and \$320,000 for park and recreational facilities.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

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

Fiscal Year	Principal	Interest	Total
2019	\$ 830,000	\$ 483,073	\$ 1,313,073
2020	850,000	454,046	1,304,046
2021	870,000	423,675	1,293,675
2022	885,000	394,360	1,279,360
2023	885,000	365,708	1,250,708
2024-2028	4,700,000	1,363,162	6,063,162
2029-2033	4,300,000	514,959	4,814,959
2034	740,000	14,132	754,132
	<u>\$ 14,060,000</u>	<u>\$ 4,013,115</u>	<u>\$ 18,073,115</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and the Series 2008 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

During the current fiscal year, the District levied an ad valorem debt service tax at the rate of \$0.41 per \$100 of assessed valuation, which resulted in a tax levy of \$1,230,022 on the adjusted taxable valuation of \$300,006,355 for the 2018 tax year. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

- A. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.
- B. The bond orders state that the District is required to provide to the state information depository continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District deposits was \$1,034,791 and the bank balance was \$1,035,108. Of the bank balance, \$650,544 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Deposits (Continued)

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 424,699	\$ 240,000	\$ 664,699
DEBT SERVICE FUND	157,452		157,452
CAPITAL PROJECTS FUND	212,640		212,640
TOTAL DEPOSITS	\$ 794,791	\$ 240,000	\$ 1,034,791

Investments

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

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

Certificates of Deposit are measured at amortized cost.

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

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 2,476,395	\$ 2,476,395	\$	\$	\$
Certificate of Deposit	240,000	240,000			
<u>DEBT SERVICE FUND</u>					
TexPool	792,671	792,671			
<b>TOTAL INVESTMENTS</b>	<b>\$ 3,509,066</b>	<b>\$ 3,509,066</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>

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

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

Restrictions

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 6. CAPITAL ASSETS**

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

	November 1, 2017	Increases	Decreases	October 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 449,796	\$	\$	\$ 449,796
Construction in Progress	<u>1,958,500</u>	<u>732,676</u>	<u>2,279,017</u>	<u>412,159</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 2,408,296</u>	<u>\$ 732,676</u>	<u>\$ 2,279,017</u>	<u>\$ 861,955</u>
<b>Capital Assets Subject to Depreciation</b>				
Water System	\$ 6,974,526	\$ 38,631	\$	\$ 7,013,157
Wastewater System	6,953,068	122,968		7,076,036
Parks and Recreation	<u>234,493</u>	<u>2,117,418</u>		<u>2,351,911</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 14,162,087</u>	<u>\$ 2,279,017</u>	<u>\$ - 0 -</u>	<u>\$ 16,441,104</u>
<b>Less Accumulated Depreciation</b>				
Water System	\$ 1,888,131	\$ 159,082	\$	\$ 2,047,213
Wastewater System	1,683,238	163,414		1,846,652
Parks and Recreation	<u>23,450</u>	<u>223,466</u>		<u>246,916</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 3,594,819</u>	<u>\$ 545,962</u>	<u>\$ - 0 -</u>	<u>\$ 4,140,781</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 10,567,268</u>	<u>\$ 1,733,055</u>	<u>\$ - 0 -</u>	<u>\$ 12,300,323</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 12,975,564</u>	<u>\$ 2,465,731</u>	<u>\$ 2,279,017</u>	<u>\$ 13,162,278</u>

**NOTE 7. MAINTENANCE TAX**

On January 15, 1977, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.20 per \$100 of assessed valuation of taxable property within the District. During the current fiscal year, the District levied an ad valorem maintenance tax at the rate of \$0.17 per \$100 of assessed valuation, which resulted in a tax levy of \$510,009 on the adjusted taxable valuation of \$300,006,355 for the 2018 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 8. WATER SUPPLY FACILITY CONTRACT**

On June 6, 1977, the District entered into a contract with Harris County Municipal Utility District No. 65 (“No. 65”) for construction, operation and ownership of water facilities. This contract is for a term of forty years. Construction costs were paid by the Districts in direct proportion to their responsive capacity rights. The District operates and maintains all facilities and receives reimbursement from No. 65 based on their pro rata share of applicable operating costs incurred.

On July 16, 2004, the District entered into a Permanent Water Supply Contract with West Harris County Municipal Utility District No. 5 (“No. 5”). No. 65 constructed their own water plant and conveyed their ownership interest to the District. The District agreed to sell No. 5 capacity interest of 383 equivalent connections. No. 5 agreed to construct and expand the water supply system. Upon completion, No. 5’s equivalent connections were increased to 475 equivalent connections and the District owns all remaining connections. The District is responsible for operation and maintenance of the joint water plant. Operations and maintenance costs are billed to the districts based on their prorata share of monthly equivalent connections. Term of the agreement is 50 years. On December 14, 2016, the District approved the purchase of No. 5’s capacity. During the current fiscal year, the joint water plant account was closed.

**NOTE 9. JOINT VENTURE WASTE TREATMENT PLANT**

The Williamsburg Regional Sewage Treatment Authority was formed by agreements between Harris County Municipal Utility District No. 61 and West Harris County Municipal Utility District No. 2 on September 29, 1976, as amended November 1, 1980, to include Harris County Municipal Utility District Nos. 62, 63, 64 and 65 and West Harris County Utility District No. 5, for the purpose of sharing costs of operating the regional sewage treatment plant (the “plant”) and sharing the construction costs of expanding the existing facilities. The agreement is for a period of forty years.

The Authority is governed by a Board of Delegates comprised of one representative from each of the participants. The Authority is not subject to nor does it exercise oversight responsibility as to any other governmental entity.

Operation of the plant is governed by the Regional Sewage Treatment Plant Contract Providing for the Creation of the Williamsburg Regional Sewage Authority dated November 1, 1980 (the "Agreement"). During the fiscal year ending October 1, 2010, the Board of Delegates adopted the Fourth and Fifth Amendments to the Agreement to revise the procedures for expanding the Plant and to change the method of designating a President of the Authority.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 9. JOINT VENTURE WASTE TREATMENT PLANT (Continued)**

During the year ended October 31, 2018, the District's share of the plant's expenditures was \$206,404. The District has made an advance to the reserve of the Regional Sewage Treatment Authority of \$10,000.

The following summary financial data of the Authority is presented for the fiscal year ending October 31, 2018. Additional financial information can be obtained by contacting the Authority's attorneys, Smith, Murdaugh, Little & Bonham, L.L.P.

Total Assets	\$	159,701
Total Liabilities		<u>89,701</u>
 Total Fund Balance	 \$	 <u><u>70,000</u></u>
Total Revenues	\$	1,434,312
Total Expenses		<u>1,434,312</u>
 Excess Revenues (Expenditures)	 \$	 -0-
Fund Balance - November 1, 2017		<u>70,000</u>
Fund Balance - October 31, 2018	\$	<u><u>70,000</u></u>

**NOTE 10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 11. REGIONAL WATER AUTHORITY FEES**

The West Harris County Regional Water Authority was created pursuant to a special act of the State Legislature and Article XVI of the Texas Constitution. The Authority may establish fees, user fees and charges as necessary to implement the "Groundwater Reduction Plan". In accordance with this provision, the Authority established a well pumpage fee. The current pumpage fee is \$2.70 per 1,000 gallons. The District recorded expenditures of \$370,647 related to pumpage fees.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 12. EMERGENCY WATER SUPPLY AGREEMENT**

On April 19, 1977, the District entered into an emergency water supply agreement with Harris County Municipal Utility District No. 61 (“No. 61”). The districts agree to share equally the costs of the construction associated with the water line interconnect. On September 18, 1986, this contract was amended to include Harris County Municipal Utility District Nos. 62, 64, 65 and West Harris County Municipal Utility District No. 2. Each district is responsible for maintenance of their respective water distribution system. The term of this agreement is 35 years.

**NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT**

The District entered into a Strategic Partnership Agreement with the City of Houston on November 11, 2010. Under the Agreement, the City will perform a limited-purpose annexation of property within the District. The City shall impose a Sales & Use Tax on the limited-purpose property activities. An amount equal to 50 percent of all Sales & Use Tax collected by the City on revenues generated within the boundaries of the limited-purpose annexation property shall be paid to the District. The Agreement continues in effect for a period of 30 years. During the current fiscal year, the District recorded \$24,173 in sales tax revenue as a result of this Agreement.

**NOTE 14. ESCROW REQUIREMENT**

By order dated March 1, 2012, the Commission authorized the issuance of \$2,700,000 Unlimited Tax Bonds, Series 2012 and required that the District escrow \$1,435,757 from proceeds of the sale of the Series 2012 Bonds until such time the Commission provides written authorization for the release of said funds. On May 28, 2015, the Commission approved the change in scope and to release \$840,205 to fund the Williamsburg Hamlet Section 1 rehabilitation project. On November 30, 2015, the Commission approved the release of \$195,117 in escrow to fund the District’s share of costs for the construction of a storm sewer drainage line to serve a 15-acre tract. On September 11, 2017, the Commission approved the release of \$212,575 in escrow to fund the rehabilitation/improvements to the existing detention pond. As of fiscal year end, \$187,860 of the funds remain in escrow.

**NOTE 15. USE OF SURPLUS FUNDS**

On March 27, 2018, the Commission approved the use of \$136,416 from surplus operating and maintenance tax funds to reimburse the Developer for offsite facilities serving Redline Athletic Facility. The District reimbursed the Developer \$134,924 during the current fiscal year.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

**NOTE 16. PENDING BOND SALE**

Subsequent to year end, on February 14, 2019, the District is expected to close on the sale of its Unlimited Tax Bonds, Series 2019 in the amount of \$1,535,000. Proceeds of the bond sale will fund the District's share of the Williamsburg Regional Sewage Authority Capacity Upgrade Component, the Williamsburg Regional Sewage Authority Capacity payment and the cost of issuance of the bonds.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**

**REQUIRED SUPPLEMENTARY INFORMATION**

**OCTOBER 31, 2018**





**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 460,000	\$ 460,000	\$ 541,371	\$ 81,371
Water Service	285,000	285,000	258,500	(26,500)
Wastewater Service	720,000	720,000	756,595	36,595
Regional Water Authority Fee	480,000	480,000	433,724	(46,276)
Sales Tax Revenues	25,000	25,000	24,173	(827)
Penalty and Interest	32,000	32,000	28,100	(3,900)
Tap Connection and Inspection Fees			61,690	61,690
Investment Revenues	12,000	12,000	38,908	26,908
Miscellaneous Revenues	<u>4,000</u>	<u>4,000</u>	<u>56,837</u>	<u>52,837</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,018,000</u>	<u>\$ 2,018,000</u>	<u>\$ 2,199,898</u>	<u>\$ 181,898</u>
<b>EXPENDITURES</b>				
Services Operations:				
Professional Fees	\$ 152,200	\$ 152,200	\$ 214,197	\$ (61,997)
Contracted Services	432,352	432,352	433,239	(887)
Purchased Water Service			4,315	(4,315)
Purchased Wastewater Service	196,440	196,440	206,404	(9,964)
Utilities	72,900	72,900	56,203	16,697
Regional Water Authority Assessment	460,000	460,000	370,647	89,353
Repairs and Maintenance	285,000	330,000	368,862	(38,862)
Other	182,730	182,730	209,261	(26,531)
Capital Outlay	<u>124,308</u>	<u>124,308</u>	<u>478,529</u>	<u>(354,221)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,905,930</u>	<u>\$ 1,950,930</u>	<u>\$ 2,341,657</u>	<u>\$ (390,727)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 112,070</u>	<u>\$ 67,070</u>	<u>\$ (141,759)</u>	<u>\$ (208,829)</u>
<b>OTHER FINANCING SOURCES(USES)</b>				
Transfers In	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ (398,417)</u>	<u>\$ (398,417)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 112,070	\$ 67,070	\$ (540,176)	\$ (607,246)
<b>FUND BALANCE - NOVEMBER 1, 2017</b>	<u>3,508,634</u>	<u>3,508,634</u>	<u>3,508,634</u>	
<b>FUND BALANCE - OCTOBER 31, 2018</b>	<u>\$ 3,620,704</u>	<u>\$ 3,575,704</u>	<u>\$ 2,968,458</u>	<u>\$ (607,246)</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	Original and Final Budget*	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Harris County Municipal Utility District No. 64	\$	\$ 8,000	\$ 8,000
Interest Earned		1	1
<b>TOTAL REVENUES</b>	<b>\$ - 0 -</b>	<b>\$ 8,001</b>	<b>\$ 8,001</b>
<b>EXPENDITURES</b>			
Services Operations:			
Utilities	\$	\$ 4,314	\$ (4,314)
Other		2	(2)
<b>TOTAL EXPENDITURES</b>	<b>\$ - 0 -</b>	<b>\$ 4,316</b>	<b>\$ (4,316)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ - 0 -</b>	<b>\$ 3,685</b>	<b>\$ 3,685</b>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers Out	\$ - 0 -	\$ (3,685)	\$ (3,685)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>
<b>FUND BALANCE - NOVEMBER 1, 2017</b>	_____	_____	_____
<b>FUND BALANCE - OCTOBER 31, 2018</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>

\* The District did not adopt a budget for the Special Revenue Fund during the current fiscal year. This fund was closed during the current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**OCTOBER 31, 2018**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the Rate Order approved February 14, 2018.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 9.50	10,000	N	\$ 1.00 \$ 1.25 \$ 1.50	10,001 – 15,000 15,001 – 20,000 20,001 and up
WASTEWATER:	\$ 40.54	10,000	N	\$ 0.75 \$ 1.25 \$ 1.75	10,001 – 20,000 20,001 – 30,000 30,001 and up
SURCHARGE: Regional Water Authority Fee				\$ 2.97	Per 1,000

District employs winter averaging for wastewater usage? 

_____	<u>  X  </u>
Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$9.50 Wastewater: \$40.54 Surcharge \$29.70

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

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

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ <sup>3</sup> / <sub>4</sub> "	<u>1,345</u>	<u>1,335</u>	x 1.0	<u>1,335</u>
1"	<u>7</u>	<u>6</u>	x 2.5	<u>15</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>24</u>	<u>22</u>	x 8.0	<u>176</u>
3"			x 15.0	
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"			x 50.0	
8"	<u>2</u>	<u>2</u>	x 80.0	<u>160</u>
10"			x 115.0	
Total Water Connections	<u><u>1,382</u></u>	<u><u>1,369</u></u>		<u><u>1,726</u></u>
Total Wastewater Connections	<u><u>1,367</u></u>	<u><u>1,351</u></u>	x 1.0	<u><u>1,351</u></u>

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

Gallons pumped into system:	137,334,000	Water Accountability Ratio 106% (Gallons billed and sold/Gallons pumped)
Gallons billed to customers:	149,721,000	
Gallons purchased:	5,800,000	From: Harris County Municipal Utility District No. 65
Gallons purchased:	650,000	From: West Harris County Municipal Utility District No. 5
Gallons sold:	2,500,000	To: : Harris County Municipal Utility District No. 65
Leaks and flushing:	310,000	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

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

Does the District have Debt Service standby fees? Yes \_\_\_ No  X

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  X  No \_\_\_\_\_

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely \_\_\_\_\_ Partly \_\_\_\_\_ Not at all  X

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

Entirely  X  Partly \_\_\_\_\_ Not at all \_\_\_\_\_

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes \_\_\_\_\_ No  X

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 14,250
Engineering	80,994
Legal	115,453
Financial Advisor	<u>3,500</u>
TOTAL PROFESSIONAL FEES	<u>\$ 214,197</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 4,315
Purchased Wastewater Service	<u>206,404</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 210,719</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 23,712
Operations and Billing	<u>91,057</u>
TOTAL CONTRACTED SERVICES	<u>\$ 114,769</u>
UTILITIES:	
Electricity	\$ 54,481
Telephone	<u>1,722</u>
TOTAL UTILITIES	<u>\$ 56,203</u>
REPAIRS AND MAINTENANCE	<u>\$ 368,862</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 19,950
Dues	650
Election Costs	6,190
Insurance	16,765
Office Supplies and Postage	46,493
Payroll Taxes	1,404
Travel and Meetings	13,551
Regional Water Authority Assessment	370,647
Other	<u>7,997</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 483,647</u>
CAPITAL OUTLAY:	
Capitalized Assets	\$ 478,529
Expenditures Not Capitalized	<u>          </u>
TOTAL CAPITAL OUTLAY:	<u>\$ 478,529</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

TAP CONNECTIONS	\$ <u>27,326</u>
SOLID WASTE DISPOSAL	\$ <u>249,976</u>
SECURITY	\$ <u>68,494</u>
OTHER EXPENDITURES:	
Chemicals	\$ 14,483
Laboratory Fees	17,542
Reconnection Fees	14,195
Inspection Fees	17,670
Regulatory Assessment	<u>5,045</u>
TOTAL OTHER EXPENDITURES	\$ <u>68,935</u>
TOTAL EXPENDITURES	\$ <u>2,341,657</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**INVESTMENTS**  
**OCTOBER 31, 2018**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 2,476,395	\$
Certificate of Deposit	XXXX0132	2.35%	07/12/19	<u>240,000</u>	<u>1,715</u>
TOTAL GENERAL FUND				<u>\$ 2,716,395</u>	<u>\$ 1,715</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0002	Varies	Daily	<u>792,671</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 3,509,066</u>	<u>\$ 1,715</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
NOVEMBER 1, 2017	\$ 491,740		\$ 1,194,167	
Adjustments to Beginning				
Balance	<u>67,788</u>	\$ 559,528	<u>162,982</u>	\$ 1,357,149
Original 2018 Tax Levy	\$ 510,009		\$ 1,230,022	
Adjustment to 2018 Tax Levy		<u>510,009</u>		<u>1,230,022</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,069,537		\$ 2,587,171
TAX COLLECTIONS:				
Prior Years	\$ 541,371		\$ 1,306,801	
Current Year	<u>422</u>	<u>541,793</u>	<u>1,017</u>	<u>1,307,818</u>
TAXES RECEIVABLE -				
OCTOBER 31, 2018		<u>\$ 527,744</u>		<u>\$ 1,279,353</u>
TAXES RECEIVABLE BY				
YEAR:				
2018		\$ 509,587		\$ 1,229,005
2017		7,366		17,765
2016		5,725		15,492
2015		1,160		3,286
2014		780		2,210
2013		602		1,535
2012		536		1,703
2011 and Prior		<u>1,988</u>		<u>8,357</u>
TOTAL		<u>\$ 527,744</u>		<u>\$ 1,279,353</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 56,483,725	\$ 56,233,679	\$ 54,923,039	\$ 47,732,368
Improvements	241,240,474	229,159,854	217,600,417	190,504,215
Personal Property	8,537,689	4,316,067	4,049,704	3,276,451
Exemptions	<u>(6,255,533)</u>	<u>(10,009,781)</u>	<u>(9,714,954)</u>	<u>(9,169,273)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 300,006,355</u>	<u>\$ 279,699,819</u>	<u>\$ 266,858,206</u>	<u>\$ 232,343,761</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.41	\$ 0.41	\$ 0.46	\$ 0.51
Maintenance	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>	<u>0.18</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.58</u>	<u>\$ 0.58</u>	<u>\$ 0.63</u>	<u>\$ 0.69</u>
ADJUSTED TAX LEVY*	<u>\$ 1,740,031</u>	<u>\$ 1,622,254</u>	<u>\$ 1,681,201</u>	<u>\$ 1,603,166</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>0.08 %</u>	<u>98.45 %</u>	<u>98.74 %</u>	<u>99.72 %</u>

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

Maintenance Tax – Maximum tax rate not to exceed \$0.20 per \$100 of assessed valuation approved by voters on January 15, 1977.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 0 8			
Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 80,000	\$ 5,775	\$ 85,775
2020	70,000	1,837	71,837
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
	\$ 150,000	\$ 7,612	\$ 157,612

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 1 2 R E F U N D I N G

Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 375,000	\$ 95,900	\$ 470,900
2020	400,000	80,400	480,400
2021	405,000	64,300	469,300
2022	415,000	47,900	462,900
2023	415,000	31,300	446,300
2024	420,000	14,600	434,600
2025	155,000	3,100	158,100
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
	<u>\$ 2,585,000</u>	<u>\$ 337,500</u>	<u>\$ 2,922,500</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 1 2 A

Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 25,000	\$ 102,125	\$ 127,125
2020	25,000	101,375	126,375
2021	25,000	100,500	125,500
2022	25,000	99,500	124,500
2023	25,000	98,500	123,500
2024	25,000	97,500	122,500
2025	25,000	96,500	121,500
2026	25,000	95,500	120,500
2027	50,000	94,000	144,000
2028	50,000	92,000	142,000
2029	125,000	88,500	213,500
2030	150,000	83,000	233,000
2031	500,000	70,000	570,000
2032	500,000	50,000	550,000
2033	500,000	30,000	530,000
2034	500,000	10,000	510,000
	<u>\$ 2,575,000</u>	<u>\$ 1,309,000</u>	<u>\$ 3,884,000</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

SERIES - 2014 REFUNDING

Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 50,000	\$ 33,061	\$ 83,061
2020	55,000	31,597	86,597
2021	55,000	30,063	85,063
2022	50,000	28,598	78,598
2023	55,000	27,133	82,133
2024	55,000	25,598	80,598
2025	155,000	22,668	177,668
2026	250,000	17,019	267,019
2027	245,000	10,114	255,114
2028	240,000	3,348	243,348
2029			
2030			
2031			
2032			
2033			
2034			
	<u>\$ 1,210,000</u>	<u>\$ 229,199</u>	<u>\$ 1,439,199</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 1 5 R E F U N D I N G

Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 75,000	\$ 145,850	\$ 220,850
2020	75,000	143,975	218,975
2021	160,000	140,450	300,450
2022	170,000	135,500	305,500
2023	165,000	130,475	295,475
2024	185,000	124,300	309,300
2025	335,000	113,900	448,900
2026	440,000	98,400	538,400
2027	450,000	80,600	530,600
2028	470,000	62,200	532,200
2029	665,000	39,500	704,500
2030	655,000	13,100	668,100
2031			
2032			
2033			
2034			
	<u>\$ 3,845,000</u>	<u>\$ 1,228,250</u>	<u>\$ 5,073,250</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 1 5 A			
Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 125,000	\$ 52,306	\$ 177,306
2020	125,000	49,806	174,806
2021	125,000	47,306	172,306
2022	125,000	44,806	169,806
2023	125,000	42,306	167,306
2024	125,000	39,806	164,806
2025	125,000	36,994	161,994
2026	125,000	33,869	158,869
2027	125,000	30,275	155,275
2028	125,000	26,213	151,213
2029	125,000	22,150	147,150
2030	125,000	18,087	143,087
2031	125,000	14,025	139,025
2032	125,000	9,963	134,963
2033	125,000	5,822	130,822
2034	110,000	1,857	111,857
	\$ 1,985,000	\$ 475,591	\$ 2,460,591

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

S E R I E S - 2 0 1 5 B

Due During Fiscal Years Ending October 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 100,000	\$ 48,056	\$ 148,056
2020	100,000	45,056	145,056
2021	100,000	41,056	141,056
2022	100,000	38,056	138,056
2023	100,000	35,994	135,994
2024	100,000	33,807	133,807
2025	100,000	31,494	131,494
2026	100,000	29,056	129,056
2027	100,000	26,494	126,494
2028	100,000	23,807	123,807
2029	100,000	20,932	120,932
2030	100,000	17,932	117,932
2031	125,000	14,557	139,557
2032	125,000	10,728	135,728
2033	130,000	6,663	136,663
2034	130,000	2,275	132,275
	<u>\$ 1,710,000</u>	<u>\$ 425,963</u>	<u>\$ 2,135,963</u>

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**OCTOBER 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending October 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 830,000	\$ 483,073	\$ 1,313,073
2020	850,000	454,046	1,304,046
2021	870,000	423,675	1,293,675
2022	885,000	394,360	1,279,360
2023	885,000	365,708	1,250,708
2024	910,000	335,611	1,245,611
2025	895,000	304,656	1,199,656
2026	940,000	273,844	1,213,844
2027	970,000	241,483	1,211,483
2028	985,000	207,568	1,192,568
2029	1,015,000	171,082	1,186,082
2030	1,030,000	132,119	1,162,119
2031	750,000	98,582	848,582
2032	750,000	70,691	820,691
2033	755,000	42,485	797,485
2034	740,000	14,132	754,132
	<u>\$ 14,060,000</u>	<u>\$ 4,013,115</u>	<u>\$ 18,073,115</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding November 1, 2017
Harris County Municipal Utility District No. 64 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2008	\$ 3,520,000	\$ 230,000
Harris County Municipal Utility District No. 64 Unlimited Tax Refunding Bonds - Series 2012	4,025,000	2,950,000
Harris County Municipal Utility District No. 64 Unlimited Tax Bonds - Series 2012A	2,700,000	2,600,000
Harris County Municipal Utility District No. 64 Unlimited Tax Refunding Bonds - Series 2014	1,555,000	1,260,000
Harris County Municipal Utility District No. 64 Unlimited Tax Refunding Bonds - Series 2015	4,070,000	3,920,000
Harris County Municipal Utility District No. 64 Unlimited Tax Bonds - Series 2015A	2,235,000	2,110,000
Harris County Municipal Utility District No. 64 Unlimited Tax Bonds - Series 2015B	<u>1,910,000</u>	<u>1,810,000</u>
<b>TOTAL</b>	<u>\$ 20,015,000</u>	<u>\$ 14,880,000</u>

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding October 31, 2018	Paying Agent
	Principal	Interest		
	\$ 80,000	\$ 9,975	\$ 150,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	365,000	110,700	2,585,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	25,000	102,875	2,575,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	50,000	34,457	1,210,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	75,000	147,350	3,845,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	125,000	54,806	1,985,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	<u>100,000</u>	<u>50,056</u>	<u>1,710,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 820,000</u>	<u>\$ 510,219</u>	<u>\$ 14,060,000</u>	

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED OCTOBER 31, 2018**

Bond Authority:	<u>Tax and Refunding Bonds*</u>	<u>Park and Recreational Bonds</u>
Amount Authorized by Voters	\$ 23,765,000	\$ 2,555,000
Amount Issued	<u>12,500,000</u>	<u>2,235,000</u>
Remaining to be Issued	<u>\$ 11,265,000</u>	<u>\$ 320,000</u>
Debt Service Fund cash, investments and cash with paying agents balance as of October 31, 2018:		<u>\$ 950,123</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 1,129,570</u>

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

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 541,371	\$ 460,611	\$ 452,072
Water Service	258,500	249,840	235,171
Wastewater Service	756,595	715,327	709,182
Regional Water Authority Fees	433,724	419,869	445,828
Sales Tax Revenue	24,173	25,917	30,578
Penalty and Interest	28,100	29,954	35,234
Tap Connection and Inspection Fees	61,690	94,553	394,035
Investment Revenues	38,908	15,034	7,905
Miscellaneous Revenues	56,837	61,786	76,853
<b>TOTAL REVENUES</b>	<b>\$ 2,199,898</b>	<b>\$ 2,072,891</b>	<b>\$ 2,386,858</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 214,197	\$ 182,753	\$ 148,153
Contracted Services	433,239	416,333	469,721
Purchased Water and Wastewater Service	210,719	704,358	780,928
Utilities	56,203	12,701	11,703
Regional Water Authority Assessment	370,647		
Repairs and Maintenance	368,862	215,557	198,145
Other	209,261	167,272	232,940
Capital Outlay	478,529	593,830	6,441
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,341,657</b>	<b>\$ 2,292,804</b>	<b>\$ 1,848,031</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (141,759)</b>	<b>\$ (219,913)</b>	<b>\$ 538,827</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (In)Out	\$ (398,417)	\$ - 0 -	\$ 1,016,905
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (540,176)</b>	<b>\$ (219,913)</b>	<b>\$ 1,555,732</b>
<b>BEGINNING FUND BALANCE</b>	<b>3,508,634</b>	<b>3,728,547</b>	<b>2,172,815</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 2,968,458</b>	<b>\$ 3,508,634</b>	<b>\$ 3,728,547</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 397,522	\$ 398,056	24.5 %	22.1 %	18.9 %	20.9 %	21.6 %
275,672	258,134	11.8	12.1	9.9	14.5	14.0
708,939	701,663	34.4	34.5	29.7	37.2	37.9
375,991	358,047	19.7	20.3	18.7	19.8	19.4
17,323	18,938	1.1	1.3	1.3	0.9	1.0
29,824	28,998	1.3	1.4	1.5	1.6	1.6
51,258	20,775	2.8	4.6	16.5	2.7	1.1
5,820	3,919	1.8	0.7	0.3	0.3	0.2
<u>40,532</u>	<u>58,338</u>	<u>2.6</u>	<u>3.0</u>	<u>3.2</u>	<u>2.1</u>	<u>3.2</u>
<u>\$ 1,902,881</u>	<u>\$ 1,846,868</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 248,162	\$ 138,367	9.7 %	8.8 %	6.2 %	13.0 %	7.5 %
421,318	378,720	19.7	20.1	19.7	22.1	20.5
604,168	675,094	9.6	34.0	32.7	31.8	36.6
10,960	10,169	2.6	0.6	0.5	0.6	0.6
		16.8				
260,383	287,369	16.8	10.4	8.3	13.7	15.6
114,906	124,710	9.5	8.1	9.8	6.0	6.8
<u>87,128</u>	<u></u>	<u>21.8</u>	<u>28.6</u>	<u>0.3</u>	<u>4.6</u>	<u></u>
<u>\$ 1,747,025</u>	<u>\$ 1,614,429</u>	<u>106.5 %</u>	<u>110.6 %</u>	<u>77.5 %</u>	<u>91.8 %</u>	<u>87.6 %</u>
<u>\$ 155,856</u>	<u>\$ 232,439</u>	<u>(6.5) %</u>	<u>(10.6) %</u>	<u>22.5 %</u>	<u>8.2 %</u>	<u>12.4 %</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ 155,856	\$ 232,439					
<u>2,016,959</u>	<u>1,784,520</u>					
<u>\$ 2,172,815</u>	<u>\$ 2,016,959</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,306,801	\$ 1,247,394	\$ 1,283,461
Penalty and Interest	57,814	12,411	22,263
Interest on Investments	12,529	4,933	3,979
Miscellaneous Revenues	28	6,106	20
<b>TOTAL REVENUES</b>	<b>\$ 1,377,172</b>	<b>\$ 1,270,844</b>	<b>\$ 1,309,723</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 94,805	\$ 62,655	\$ 64,054
Debt Service Principal	820,000	800,000	565,000
Debt Service Interest and Fees	514,469	542,142	552,629
Payment to Refunding Bond Escrow Agent			
Bond Issuance Costs			
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,429,274</b>	<b>\$ 1,404,797</b>	<b>\$ 1,181,683</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (52,102)</b>	<b>\$ (133,953)</b>	<b>\$ 128,040</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Payment to Refunding Bond Escrow Agent	\$	\$	\$
Long-Term Debt Issued			53,056
Premium on Bonds Issued			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ 53,056</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (52,102)</b>	<b>\$ (133,953)</b>	<b>\$ 181,096</b>
<b>BEGINNING FUND BALANCE</b>	<b>999,470</b>	<b>1,133,423</b>	<b>952,327</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 947,368</b>	<b>\$ 999,470</b>	<b>\$ 1,133,423</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,369</b>	<b>1,356</b>	<b>1,353</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,351</b>	<b>1,343</b>	<b>1,341</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2015	2014	2018	2017	2016	2015	2014
\$ 1,126,315	\$ 1,015,677	94.9 %	98.1 %	98.0 %	98.5 %	96.9 %
12,004	13,120	4.2	1.0	1.7	1.1	1.3
3,510	3,620	0.9	0.4	0.3	0.3	0.3
577	15,859		0.5		0.1	1.5
<u>\$ 1,142,406</u>	<u>\$ 1,048,276</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 55,677	\$ 46,598	6.9 %	4.9 %	4.9 %	4.9 %	4.4 %
540,000	500,000	59.5	63.0	43.1	47.3	47.7
484,864	546,243	37.4	42.7	42.2	42.4	52.1
6,000					0.5	
165,913	65,766				14.5	6.3
<u>\$ 1,252,454</u>	<u>\$ 1,158,607</u>	<u>103.8 %</u>	<u>110.6 %</u>	<u>90.2 %</u>	<u>109.6 %</u>	<u>110.5 %</u>
\$ (110,048)	\$ (110,331)	(3.8) %	(10.6) %	9.8 %	(9.6) %	(10.5) %
\$ (4,176,121)	\$ (1,485,355)					
4,070,000	1,555,000					
272,034						
<u>\$ 165,913</u>	<u>\$ 69,645</u>					
\$ 55,865	\$ (40,686)					
896,462	937,148					
<u>\$ 952,327</u>	<u>\$ 896,462</u>					
1,347	1,340					
<u>1,338</u>	<u>1,332</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**OCTOBER 31, 2018**

District Mailing Address - Harris County Municipal Utility District No. 64  
c/o Smith, Murdaugh, Little & Bonham, L.L.P.  
2727 Allen Parkway, Suite 1100  
Houston, TX 77019

District Telephone Number - (713) 652-6500

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended October 31, 2018	Expense Reimbursements for the year ended October 31, 2018	Title
Lisa Morton	05/2018 05/2022 (Elected)	\$ 4,650	\$ 2,465	President
Larry Koser	05/2016 05/2020 (Elected)	\$ 4,800	\$ 2,570	Vice President
Barbara Marten	05/2018 05/2022 (Elected)	\$ 4,800	\$ 2,371	Secretary
Cassie Dieudonne	10/2018 05/2020 (Appointed)	\$ -0-	\$ -0-	Director
Sandra Faz	05/2016 05/2020 (Elected)	\$ 5,100	\$ 2,565	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054 October 17, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 30, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 64**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**OCTOBER 31, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>District Fees for the year ended October 31, 2018</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	07/15/08	\$ 121,643 \$ -0-	Attorney/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	09/28/86	\$ 14,250	Auditor
Myrtle Cruz, Inc.	12/22/76	\$ 25,710	Bookkeeper
Smith Murdaugh, Little & Bonham L.L.P.	07/15/08	\$ 30,946	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates	12/22/76	\$ 102,329	Engineer
Masterson Advisors LLC	06/13/18	\$ -0-	Financial Advisor
Hilltop Securities Inc.	09/90	\$ 3,500	Prior Financial Advisor
Mary Jarmon	04/11/18	\$ -0-	Investment Officer
Municipal Operations & Consulting, Inc.	09/01/02	\$ 551,793	Operator
Wheeler & Associates	12/22/76	\$ 45,293	Tax Assessor/ Collector

See accompanying independent auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**





## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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