

**OFFICIAL STATEMENT DATED APRIL 14, 2020**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER “TAX MATTERS” HEREIN.

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

**Rating:**  
**S&P: “AA” (Stable Outlook)/Insured**  
**S&P: “BBB+”/Uninsured**  
**Insurance: AGM**  
**See: “MUNICIPAL BOND RATING AND INSURANCE” and “BOND INSURANCE”**

**NEW ISSUE – BOOK-ENTRY-ONLY**

**\$4,740,000**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
*(A political subdivision of the State of Texas located within Hays County)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**Dated: May 21, 2020**

**Due: August 15, as shown on the inside cover**

**Interest Accrues from the Date of Initial Delivery**

**GENERAL . . .** The bonds described above (the “Bonds”) are obligations solely of Hays County Municipal Utility District No. 5 (the “District”) and are not obligations of the State of Texas (“State”), Hays County, Dripping Springs Independent School District, the City of Dripping Springs (the “City”) 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 SPECIAL RISK FACTORS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

**PAYMENT TERMS . . .** Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. The Bonds are dated May 21, 2020, and interest accrues from the date of initial delivery of the Bonds, will be payable on the basis of a 360-day year consisting of twelve 30-day months and is payable each August 15 and February 15, commencing August 15, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof.

The Bonds 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 “THE BONDS – Book-Entry-Only System.”

**PURPOSE . . .** Proceeds of the Bonds will be used to currently refund a portion of the District’s outstanding unlimited tax bonds as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) and pay the costs associated with the issuance of the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE” herein.

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**CUSIP PREFIX: 421030**  
**MATURITY SCHEDULE**  
**See inside cover page**

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**LEGALITY . . .** 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 McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. See “LEGAL MATTERS.”

**DELIVERY . . .** Delivery of the Bonds in book-entry form through DTC is expected on May 21, 2020, the date of initial delivery.

**SAMCO CAPITAL MARKETS, INC.**

**MATURITY SCHEDULE**

Maturity (August 15)	Principal Amount	Interest Rate	Initial Yield <sup>(a)</sup>	CUSIP Numbers <sup>(b)</sup>
2021	\$ 35,000	3.000%	1.500%	421030KR7
2022	35,000	3.000%	1.540%	421030KS5
2023	240,000	3.000%	1.600%	421030KT3
2024	250,000	3.000%	1.700%	421030KU0
2025	265,000	2.000%	1.820%	421030KV8
2026	275,000	2.000%	1.950%	(c) 421030KW6
2027	280,000	2.000%	2.000%	421030KX4
2028	295,000	2.000%	2.050%	421030KY2
2029	300,000	2.000%	2.120%	421030KZ9
2030	310,000	2.000%	2.270%	421030LA3
2031	320,000	2.250%	2.370%	421030LB1
2032	325,000	2.250%	2.470%	421030LC9
2033	340,000	3.000%	2.570%	(c) 421030LD7
2034	345,000	2.500%	2.630%	421030LE5
2035	360,000	2.500%	2.680%	421030LF2
2036	375,000	2.500%	2.760%	421030LG0
2037	390,000	2.500%	2.820%	421030LH8

**(Interest to Accrue from the Date of Initial Delivery)**

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions, including but not limited to, a refunding in whole or in part of such maturity, or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the City, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (c) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2025, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**REDEMPTION PROVISIONS . . .** The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2026 in whole or from time to time in part, on August 15, 2025, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.”

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 “BOND INSURANCE” and “APPENDIX C – Specimen Municipal Bond Insurance Policy.” For a discussion of certain risk factors associated with the municipal bond insurance policy, see “BOND INSURANCE RISKS.”

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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 Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701, 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.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

## SALE AND DISTRIBUTION OF THE BONDS

**UNDERWRITING . . .** The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof, less an Underwriter's discount of \$41,124.61. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

**PRICES AND MARKETABILITY . . .** The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

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

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

**SECURITIES LAWS . . .** No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided

thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

#### **MUNICIPAL BOND RATING AND INSURANCE**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign a rating of "AA/(Stable Outlook)" to the Bonds, as a result of a municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. The Bonds are also rated "BBB+" by S&P without regard to credit enhancement. See "BOND INSURANCE" and "BOND INSURANCE RISKS."

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstance warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

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## 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.

### THE DISTRICT

<i>Description</i> .....	The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (“TCEQ”), on July 15, 2003, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 840.04 acres of land, including 49.1 acres of land annexed on April 16, 2007, which has been developed as a school site, and 9.73 acres annexed on March 17, 2008, which is expected to be developed for commercial uses. See “THE DISTRICT.”
<i>Location</i> .....	The District is located approximately 20 miles southwest of the central downtown business district of the City of Austin and lies wholly within the extraterritorial jurisdiction of the City of Dripping Springs and within the boundaries of the Dripping Springs Independent School District. The District is located on Sawyer Ranch Road, approximately 1½ miles south of State Highway 290. See “AERIAL BOUNDARY MAP.”
<i>The Developer</i> .....	Development within the District was originally initiated by Pulte Homes of Texas, L.P. (“Pulte”). On December 29, 2008, BHM Highpointe, Ltd. (“BHM”) acquired 311.58 acres, representing property in various stages of development including all as yet undeveloped property and 2 model lots, from Pulte. BHM sold approximately 22 acres to Standard Pacific Homes of Texas on June 3, 2010. Standard Pacific has fully developed the acreage purchased in 2010. HM Highpointe, Ltd. and HM Highpointe Development, Inc. (the “Developer”) purchased 43 existing developed lots in various phases of the HighPointe subdivision in the District and the remaining 147.13 acres of undeveloped but developable land in the District from BHM and its affiliate BHM HP 5.3 LLC, on November 1, 2016. HM Highpointe, Ltd. has since sold its land holdings in the District to the Developer. See “THE DISTRICT – Status of Development” and “THE DEVELOPER.”
<i>Status of Development</i> .....	<p>The Developer is currently marketing the remaining developed lots within the District as HighPointe, a single-family residential project.</p> <p>As of January 20, 2020, the District contained 475 developed acres comprising 962 single family residential lots. A total of 856 homes were completed and occupied, 29 homes were under construction or owned by a homebuilder and 77 lots were available for construction. As of this same date, there were approximately 45.82 acres of undeveloped but developable land, and 319.03 acres of undevelopable land including future right-of-way and a wastewater treatment plant site. The Developer has begun construction of an additional 59 lots in Highpointe Phase 1 Section Three-B. Homes within the District range in price from approximately \$380,000 to over \$600,000.</p>
<i>Homebuilders</i> .....	The homebuilders that are currently active in the District are Ashton Woods Homes and Highland Homes.
<i>Payment Record</i> .....	The District has never defaulted in the timely payment of principal or interest on its outstanding indebtedness.

### THE BONDS

<i>Description</i> .....	\$4,740,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District (the “Board”) on February 17, 2020 and the pricing certificate of the pricing officer as designated in the order (collectively, the “Bond Order”). The Bonds are scheduled to mature as serial Bonds on August 15 in the years 2021 through and including 2037. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The Bonds will be dated May 21, 2020, and interest will accrue from the date of initial delivery of the Bonds and will be payable on August 15, 2020 and each February 15 and August 15 thereafter, until maturity or prior redemption. See “THE BONDS.”
<i>Book-Entry-Only</i> .....	DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate

will be issued for each maturity of the Bonds and will be deposited with DTC or the Paying Agent/Registrar pursuant to DTC’s FAST closing procedure.

- Redemption* ..... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2026 in whole or from time to time in part, on August 15, 2025, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.”
- Use of Proceeds* ..... Proceeds of the Bonds will be used to currently refund a portion of the District’s outstanding unlimited tax bonds as more particularly described in “SCHEDULE 1 – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) and pay the costs associated with the issuance of the Bonds.
- Authority for Issuance* ..... The Bonds are issued by the District pursuant to the Bond Order, Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “RISK FACTORS – Future Debt” and “THE BONDS – Authority for Issuance” and “– Issuance of Additional Debt.”
- Source of Payment* ..... Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Dripping Springs, Dripping Springs Independent School District, Hays County, the State of Texas or any entity other than the District. See “THE BONDS – Source of Payment.”
- Municipal Bond Rating and Insurance* ..... S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) is expected to assign a rating of “AA/(Stable Outlook)” to the Bonds, as a result of a municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. The Bonds are also rated “BBB+” by S&P without regard to credit enhancement. See “BOND INSURANCE” and “BOND INSURANCE RISKS.”
- Tax-Exempt Obligations* ..... The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986 and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2020 is not expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
- Bond Counsel* ..... McCall, Parkhurst & Horton L.L.P., Austin, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
- Financial Advisor* ..... Specialized Public Finance Inc.
- General Counsel* ..... Armbrust & Brown, PLLC, Austin, Texas.
- Underwriters’ Counsel* ..... Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

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**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2016 Certified Taxable Assessed Valuation .....	\$ 283,586,829 (a)
2017 Certified Taxable Assessed Valuation .....	\$ 299,911,653 (a)
2018 Certified Taxable Assessed Valuation .....	\$ 330,589,691 (a)
2019 Certified Taxable Assessed Valuation .....	\$ 357,932,982 (a)
2020 Estimated Taxable Assessed Valuation.....	\$ 389,953,000 (a)
Gross Direct Debt Outstanding .....	\$ 24,440,000 (b)
Estimated Overlapping Debt.....	<u>26,157,335 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt .....	\$ 50,597,335
Ratios of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation .....	6.83%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation .....	14.14%
Debt Service Fund Balance as of January 27, 2020 .....	\$ 2,700,939 (d)
General Operating Fund Balance as of January 27, 2020 .....	\$ 1,506,542
2019 District Debt Service Tax Rate .....	\$ 0.5800
2019 District Maintenance Tax Rate.....	0.1390
2019 Hays County Tax Rate .....	0.4227 (e)
2019 Dripping Springs Independent School District Tax Rate .....	<u>1.4677</u>
2019 Total Projected Overlapping Tax Rate.....	\$ 2.6094
Average Annual Debt Service Requirement (2020-2042) .....	\$ 1,402,742 (b)
Maximum Annual Debt Service Requirement (2020) .....	\$ 1,947,285 (b)
Tax Rates Required to Pay Average Annual Debt Service (2020-2042) at a 97.5% Collection Rate:	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$ 0.4020
Tax Rates Required to Pay Maximum Annual Debt Service (2020) at a 97.5% Collection Rate:	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$ 0.5580
Status of Development as of January 20, 2020:	
Homes Completed and Occupied.....	856
Homes Under Construction or Owned by a Home Builder.....	29
Lots Currently Under Construction .....	59
Lots Available for Home Construction .....	77
Developed Acreage.....	475.00
Undeveloped but Developable Acreage.....	45.82
Estimated Population .....	2,996 (f)

- (a) As provided by the Hays Central Appraisal District (the "Appraisal District" or "HCAD").
- (b) Includes the Bonds and excludes the Refunded Bonds. See "DEBT SERVICE REQUIREMENTS."
- (c) See "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt."
- (d) See "INVESTMENT CONSIDERATIONS."
- (e) Includes Hays County road and bridge tax rate.
- (f) Based upon 3.5 persons per occupied single-family residence.

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**OFFICIAL STATEMENT**

**\$4,740,000**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**

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

**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Hays County Municipal Utility District No. 5 (the “District”) of its \$4,740,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution and the general laws of the State of Texas, including Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, the bond election held within the District on November 2, 2004, and an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District (the “Board”) on February 17, 2020 and the pricing certificate of the pricing officer as designated in the order (collectively, the “Bond Order”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, the developer, and development activity in 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 Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District undertaking to provide certain information on a continuing basis.

**PLAN OF FINANCING**

**REFUNDED BONDS . . .** The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, NA, Dallas, Texas (the “Escrow Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the District, if any, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds in accordance with applicable law and thereafter the District will have no further responsibility with respect to the payment of such Refunded Bonds including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Bonds will no longer be payable from ad valorem taxes but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District.

**PURPOSE . . .** Proceeds of the Bonds will be used to currently refund a portion of the District’s outstanding unlimited tax bonds as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” and pay the costs associated with the issuance of the Bonds.

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**SOURCES AND USES OF FUNDS . . .** The proceeds from the sale of the Bonds, together with other lawfully available funds of the District will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 4,740,000.00
Transfer from Prior Issue Debt Service Funds	65,000.00
Net Original Issue Discount	<u>(30,398.90)</u>
Total Sources of Funds	\$ 4,774,601.10
Uses of Funds:	
Escrow Fund Deposit	\$ 4,495,994.17
Costs of Issuance (including bond insurance premium)	232,759.45
Underwriter's Discount	41,124.61
Deposit to Interest and Sinking Fund	<u>4,722.87</u>
Total Uses of Funds	\$ 4,774,601.10

### **INVESTMENT CONSIDERATIONS**

**GENERAL . . .** The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs (the “City”), Dripping Springs Independent School District, Hays 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 continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies” below.

**INFECTIOUS DISEASE OUTLOOK (COVID-19) . . .** The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the “President”) declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-16 on April 17, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or essential daily activities and closes schools to in-person classroom attendance by students through the 2019-2020 school year, unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. Furthermore, the Governor has suspended various statutes of the Texas Open Meetings Act that require government officials and members of the public to be physically present at a specified meeting location. This temporary suspension will allow for telephonic or videoconference meetings of governmental bodies that are accessible to the public in an effort to reduce in-person meetings that assemble large groups of people. In addition, Hays County, within which the District is located, has issued “stay home” orders for most citizens except when engaged in specific essential business functions. Hays County’s “stay home” order does not prohibit homebuilding activity or the construction of utility facilities within the District. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Austin area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds

are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

#### **FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS**

*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 developed lots which are currently being marketed and developed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics and prospects of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values; and thus increase the rate of taxation in the District.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, although located approximately 20 miles southwest of the central downtown business district of the City of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies. See "National and Regional Economy" below.

*National and Regional Economy:* Nationally, there have been periods of significant volatility in new housing construction caused primarily by the unavailability of mortgage funds, resulting in marked changes in housing market values. The District is located approximately 20 miles southwest of the central downtown business district of the City of Austin and lies wholly within the extraterritorial jurisdiction of the City and within the boundaries of the Dripping Springs Independent School District. The District is located on Sawyer Ranch Road, approximately 1½ miles south of State Highway 290. The Austin area, including the District, has experienced reduced levels of home construction from time to time. The District cannot predict what impact, if any, another downturn in the national housing market and financial markets may have on the Austin area market. See "Maximum Impact on District Tax Rates" below.

*Competition:* The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in western Hays County, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously owned homes in more established neighborhoods that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District. The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that additional building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

**MAXIMUM IMPACT ON DISTRICT TAX RATES . . .** Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Taxable Assessed Valuation is \$357,932,982. After issuance of the Bonds, the maximum debt service requirement will be \$1,947,285 (2020), and the average annual debt service requirement will be \$1,402,742 (2020-2042, inclusive). See "DEBT SERVICE REQUIREMENTS." Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.5580 and \$0.4020 per \$100 appraised valuation at a ninety-seven and a half percent (97.5%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners.

**DEPENDENCE ON MAJOR TAXPAYERS AND THE DEVELOPERS . . .** The top ten principal taxpayers represent \$12,767,340 or 3.57% of the District's 2019 Certified Taxable Assessed Valuation of \$357,932,982. The Developer represents \$2,331,080 or 0.65% of such value. If the Developer or other principal taxpayer were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process. Failure to recover or borrow funds in a timely

fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its interest and sinking fund. See “Tax Collection Limitations and Foreclosure Remedies” in this section, “TAX DATA – Principal Taxpayers,” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

The Developer has informed the Board that its current plan is to continue marketing the remaining developed lots in the District to homebuilders. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See “THE DEVELOPER.”

**UNDEVELOPED ACREAGE . . .** There are approximately 45.82 net developable acres of land within the District that have not been developed with water, wastewater and storm drainage and detention facilities. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT – Future Development.”

**DEVELOPMENT AND HOME CONSTRUCTION IN THE DISTRICT . . .** As of January 20, 2020, approximately 77 developed lots within the District remained vacant. Failure of the Developer or homebuilders to construct taxable improvements on developed lots could result in increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and other tax supported debt of the District. Future increases in value will result primarily from the construction of homes by builders. See “Maximum Impact on District Tax Rates” above.

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

**REGISTERED OWNERS’ REMEDIES . . .** Remedies available to Registered Owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Order are limited. Although state law and the Bond Order provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. State law and the Bond Order do not provide for acceleration of maturity of the Bonds. Additionally, the Bond Order does not appoint a trustee to protect the interests of the Registered Owners or any other additional remedy in the event of a default by the District and, consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District’s public purpose property.

Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights of the Registered Owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors’ rights generally or by a State statute reasonably required to attain an important public purpose. See “Bankruptcy Limitation to Registered Owners’ Rights” below.

**BANKRUPTCY LIMITATION TO REGISTERED OWNERS’ RIGHTS . . .** The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a municipal utility district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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 collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

**FUTURE DEBT . . .** The District has the right to issue obligations other than the Bonds, including tax anticipation notes, bond anticipation notes, and refunding bonds and notes and to borrow for any valid corporate purpose. A total of \$51,530,000 principal amount of unlimited tax bonds has been authorized by the District's voters and \$22,880,000 of unlimited tax bonds remains authorized but unissued for the purpose of purchasing and constructing a water, wastewater and drainage system. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is also authorized to issue bonds to refund or redeem its outstanding debt. The District voters have authorized the issuance of up to \$75,000,000 in ad valorem tax bonds for refunding bonds and other obligations of the District. After issuance of the Bonds, the District will have \$73,275,000 of voted refunding bond authority remaining. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of certain types of additional bonds and obligations are subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

**UTILITY OPERATIONS . . .** Wastewater treatment for the District is provided by the District's 150,000 gallon per day (GPD) wastewater treatment plant. The plant operates under TCEQ Permit #14358-001, which was renewed by the TCEQ on December 4, 2019. The District utilizes a 150,000 GPD subsurface drip irrigation system for effluent disposal. The District has begun construction of the expansions of the District's wastewater treatment plant and subsurface drip irrigation system for effluent disposal. Upon completion, the expansions will provide 220,000 GPD of capacity to serve up to 1,257 equivalent single-family connections.

The West Travis County Public Utility Agency ("PUA") provides retail water service within the District and has contracted to provide water supply sufficient to serve the entire District through full build-out. The PUA is responsible for the financing, construction, operation and maintenance of the central facilities and infrastructure necessary to provide such service. The PUA is also responsible for maintaining the regulatory compliance of such facilities. See "AGREEMENTS BETWEEN THE DISTRICT, THE DEVELOPER, THE CITY OF DRIPPING SPRINGS AND THE LOWER COLORADO RIVER AUTHORITY." Wastewater treatment for the District is provided by the District's 150,000 gallon per day ("GPD") wastewater treatment plant. The plant operates under TCEQ permit #14358-001, which was renewed by the TCEQ on August 1, 2013, and is in the process of being renewed again pursuant to the District's application to the TCEQ submittal in January 2019. The District utilizes a 150,000 GPD subsurface drip irrigation system for effluent disposal. Upon completion, the expansions will provide 350,000 gpd of subsurface disposal to serve up to 1,257 equivalent single-family connections. The expansion projects are being constructed and funded pursuant to the terms and conditions of the Wholesale Wastewater Services and Capacity Agreement dated September 14, 2015, by and among the District, HM Parten Ranch Development, Inc., and Springhollow Municipal Utility District, as assigned and amended. See "THE SYSTEM." The District is responsible for management, operation and maintenance of stormwater drainage and water quality facilities. Actual day-to-day management of such District facilities has been contracted for with Crossroads Utility Services, L.L.C. See "MANAGEMENT OF THE DISTRICT."

**ENVIRONMENTAL REGULATIONS . . .** Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring remedial action to prevent or mitigate pollution; and
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water control and improvement district or other type of 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 as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to districts. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

**Air Quality Issues.** The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be

anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and “attain” compliance with the appropriate standard. This so called State Implementation Plan (“SIP”) entails enforceable control measures and time frames.

In 1997, the EPA adopted the “8-hour” ozone standard of 80 parts per billion (“ppb”) (the “1997 Ozone Standard”) to protect public health and welfare. In 2008, the EPA lowered the ozone standard to 75 ppb (the “2008 Ozone Standard”). The Austin area, consisting of Williamson, Hays, Travis, Bastrop and Caldwell Counties (the “Austin Area”) was not designated “nonattainment” under the 2008 Ozone Standard.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the “2015 Ozone Standard”). On May 1, 2018, the EPA designated the Austin Area as “attainment” under the 2015 Ozone Standards, which became effective on August 3, 2018.

Should the Austin Area fail to achieve EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of nonattainment/conformity analysis, the status of EPA’s implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the near future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that the District may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater 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.

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 (60) 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 (6) 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 sixty (60) days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

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

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and/or a stormwater management plan. The District could incur substantial costs to develop and implement such 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. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

**Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.**

*Atlas 14 Study.* The National Weather Service recently completed a rainfall study known as Atlas 14 which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along the I-10 corridor to Central Texas. Based on this study, various governmental entities, including Williamson County, are contemplating amendments to their regulations that will potentially increase the size of the 100 year floodplain and will also increase the size of detention ponds and drainage facilities required for future construction in all areas (not just in the floodplain). See “THE SYSTEM – 100-Year Flood Plain.”

**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. Additionally, there are no assurances that if a secondary market for the Bonds will were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

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

**HOUSING MARKET VOLATILITY . . .** In recent years, periods of increased disruption in the housing market and related volatility in the financial markets has led to a significant number of foreclosures on single family homes.

There was one (1) single-family home posted by the Hays County Clerk’s Office for foreclosure in the District as of February 4, 2020.

The District can neither predict future conditions in the housing or financial markets nor provide any prediction as to the likelihood or number of home foreclosures within the District.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions,

all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

**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.

**DROUGHT CONDITIONS . . .** Central Texas, like other areas of the State, has experienced periods of extreme drought conditions in recent years. The PUA provides water to the Developer and District residents in amounts sufficient to service the residents of the District, however, if drought conditions return water usage and rates could be impacted.

**BOND INSURANCE RISK FACTORS . . .** For a discussion of certain risk factors associated with the municipal bond insurance policy, see “BOND INSURANCE RISKS.”

## THE BONDS

**DESCRIPTION . . .** The Bonds will be dated May 21, 2020, with interest accruing from the date of delivery and payable each August 15 and February 15, beginning August 15, 2020 (each an “Interest Payment Date”) until maturity or earlier redemption, and will mature on the dates and in the amounts shown on the inside cover page hereof. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form, without coupons, in denominations of \$5,000 or any integral multiple of \$5,000, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Dallas, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

**BOOK-ENTRY-ONLY SYSTEM . . .** This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a S&P Global Ratings rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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



To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

**DTC REDEMPTION PROVISION . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants. Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last day of the preceding month whether or not a business day.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business

days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**SOURCE OF PAYMENT . . .** While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose. The Bond Order provides for the termination of the pledge of taxes when and if the City annexes and dissolves the District and assumes all debts and liabilities of the District.

The District is located entirely within the extraterritorial jurisdiction of the City of Dripping Springs, Texas. The Texas Legislature enacted significant changes to annexation laws by passing Senate Bill 6 during the 85th Texas Legislature First Special Session and House Bill 347 during the 86th Texas Legislature Regular Session (the "Annexation Laws"). Pursuant to changes in general law made by these bills, the City may annex the District only if (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% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the creation. Changes implemented by the Annexation Laws could interfere with future efforts of the City to annex land within the District. If a municipal utility district is annexed, the municipality must assume the assets, functions, and obligations of the District, including outstanding bonds, and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Hays County, the City of Dripping Springs, Dripping Springs Independent School District, or any entity other than the District.

**FUNDS . . .** The Bond Order creates or confirms the establishment and maintenance by the District of an Interest and Sinking Fund and an Escrow Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Interest and Sinking Fund shall constitute a trust fund which shall be held in trust for the benefit of the holders of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

**INTEREST AND SINKING FUND . . .** The Bond Order establishes the Interest and Sinking Fund to be used to pay principal and interest on and Paying Agent/Registrar fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Interest and Sinking Fund (i) from the delivery of the bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest and capitalized interest on the Bonds, if any, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent/Registrar with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Interest and Sinking Fund be applied solely to provide or the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent/Registrar when due.

**OPTIONAL REDEMPTION . . .** The Bonds maturing on and after August 15, 2026 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 15, 2025, or on any date thereafter, in integral multiples of \$5,000, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

**NOTICE OF REDEMPTION . . .** At least 30 calendar days prior to the date fixed for any optional redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot or other customary random method.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption

may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**AUTHORITY FOR ISSUANCE . . .** At a bond election held within the District on November 2, 2004, the voters of the District authorized the issuance of \$51,590,000 principal amount of unlimited tax new money bonds and \$75,000,000 principal amount of unlimited tax refunding bonds. See "Issuance of Additional Debt" below.

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

**REGISTRATION AND TRANSFER . . .** So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

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

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

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

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

**LOST, STOLEN OR DESTROYED BONDS . . .** In the event the book-entry-only system should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding.

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

**ISSUANCE OF ADDITIONAL DEBT . . .** The District may issue additional ad valorem tax bonds and long-term revenue bonds and notes, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of \$51,530,000 principal amount of new money bonds for the purpose of constructing and/or acquiring a waterworks, sanitary sewer and storm sewer system and could authorize additional amounts. The issuance of additional bonds to refund or redeem the District's bonds is also authorized. The District voters have approved the issuance of up to \$75,000,000 ad valorem tax bonds for refunding purposes. \$22,880,000 of unlimited tax bonds currently remains authorized but unissued for the purpose of purchasing and constructing water, wastewater and drainage facilities. After issuance of the Bonds, the District will have \$73,275,000 of voted refunding bond authority remaining.

The Bond Order imposes no limitation on the amount of additional bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

According to the Developer, the District is presently obligated to reimburse the Developer approximately \$4.1 million for recently constructed utility facilities serving the existing development within the District. The District expects to submit a bond application to the TCEQ for the sale of additional bonds to satisfy its obligation to reimburse the Developers for facilities developed in 2020 and beyond. The District intends to issue such bonds in installments as permitted within tax rate targets determined by the District's Board of Directors, subject to the pace of development and timely TCEQ approval. See "INVESTMENT CONSIDERATIONS – Future Debt."

**Fire-fighting activities.** The District is also authorized by statute to provide fire-fighting services, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) approval of a fire-fighting services plan and bonds for such purpose by the qualified voters in the District; (b) approval of the fire-fighting services plan and issuance of bonds for such purpose by the TCEQ; (c) approval of such bonds by the Attorney General of Texas; and (d) confirmation that the fire-fighting services plan is consistent with City ordinances. 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 or any additional bonds issued by the District.

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

**ANNEXATION . . .** The District is located entirely within the extraterritorial jurisdiction of the City. The Texas Legislature enacted significant changes to annexation policy by passing the Annexation Laws. Pursuant to changes in general law made by these bills, the City may annex the District only if (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% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the creation. Changes implemented by the Annexation Laws could interfere with future efforts of the City to annex land within the District. See "THE BONDS – Source of Payment."

**ALTERATION OF BOUNDARIES . . .** In certain circumstances, under Texas law the District may alter its boundaries to: (i) upon satisfying certain conditions, annex additional territory; and (ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied, including the simultaneous annexation by the District of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

**APPROVAL OF THE BONDS . . .** The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

**REMEDIES IN EVENT OF DEFAULT . . .** The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. 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. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bond or Order covenants. Even if a judgment against the District could be 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. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for

broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Pursuant to Section 49.186, Texas Water Code and Chapter 1201, Texas Government Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for public funds of cities, school districts and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “PFIA”), and such political subdivisions may impose other, more stringent, requirements in order for the Bonds to be legal investments of such entity’s funds or to be eligible to serve as collateral for their funds.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the legality or suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

**DEFEASANCE . . . General...** The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a “Defeased Bond”), except to the extent provided below for the Paying Agent/Registrar to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

Any money so deposited with or made available to the Paying Agent/Registrar or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, “Defeasance Securities” means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporations), (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) non-callable 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iv) any other then authorized securities obligations under applicable State law that may be used to defease the obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

*Retention of Rights...* To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing

the issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

*Investments...* Any escrow agreement or other instrument entered into between the District and the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible trust company or commercial bank, which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without 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 State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Obligations or those for any other Defeasance Obligation will be maintained at any particular rating category.

## 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 an appendix 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 international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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

**CURRENT FINANCIAL STRENGTH RATINGS** . . . On December 19, 2019, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On November 7, 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 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.

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, 2019.

**CAPITALIZATION OF AGM** . . . At December 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,691 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$986 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 \$2,027 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference: Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020).

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 "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 "BOND INSURANCE."

### **BOND INSURANCE RISKS**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absent such prepayment by the District unless AGM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of AGM without appropriate consent. AGM may direct and must consent to any remedies and AGM's consent may be required in connection with amendments to any applicable bond documents.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the

Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of AGM and its claim paying ability. AGM'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 AGM and of the ratings on the Bonds insured by AGM 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.

The obligations of AGM are general obligations of AGM and in an event of default by AGM, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

#### **AGREEMENTS BETWEEN THE DISTRICT, THE DEVELOPER, THE CITY OF DRIPPING SPRINGS AND THE LOWER COLORADO RIVER AUTHORITY**

All land in the District is located within the extraterritorial jurisdiction of the City of Dripping Springs (the "City"). The City and the predecessor to the Developer have entered into an "Agreement Concerning Creation and Operation of Hays County Municipal Utility District No. 5 and Lands within the District" dated July 25, 2002, which covered the property originally included in the District and sets forth certain agreements concerning the development of land within the District and the issuance of bonds by the District. This agreement has been amended with the joiners of the owners of the annexed tracts, to cover the 49.1-acre and 9.73-acre tracts subsequently annexed by the District. See "RISK FACTORS – Utility Operations."

The Lower Colorado River Authority ("LCRA") contracted to provide permanent water supply for and retail water service to the District pursuant to a Utility Facilities Acquisition Agreement dated February 11, 2003 ("Water Supply Agreement") between the LCRA and 156 Sawyer Ranch, LTD., which has assigned its rights to certain predecessors of the current Developer. Pursuant to the Water Supply Agreement, the LCRA purchased the water distribution facilities from the Developer and its predecessors, and the Developer and its predecessors conveyed such facilities to LCRA.

On November 17, 2010, LCRA announced its intention to divest its water and wastewater utility facilities, including the LCRA's West Travis County Regional System (the "System") which presently provides potable water to the District. The Water Supply Agreement provides that LCRA has the right upon the written consent of the District, which consent shall not be unreasonably withheld or delayed, to assign its rights under the Water Supply Agreement to any successor entity authorized by State law, provided that such successor shall succeed, as appropriate to all of the applicable rights and obligations of LCRA.

Pursuant to an Installment Purchase Agreement dated January 17, 2012, LCRA sold the System serving the District to the PUA. Commencing March 19, 2012, the PUA began providing retail water service to the District.

#### **THE DISTRICT**

**GENERAL . . .** The District is a municipal utility district created by an order of the Texas Natural Resource Conservation Commission (predecessor to the TCEQ) dated July 15, 2003. The creation of the District was confirmed at an election held within the District on November 2, 2004. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, if approved by the City of Dripping Springs, the TCEQ and the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. Under the terms of the consent agreement with the City of Dripping Springs, within whose extraterritorial jurisdiction the District is located, the District is required to observe certain requirements of the City of Dripping Springs which limit the purposes for which the District may sell bonds and limit the net effective interest rate on such bonds and other terms of such bonds. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM – Regulation."

**STATUS OF DEVELOPMENT . . .** The Developer is currently marketing developed lots within the District as HighPointe, a single-family residential project.

Development within the District was originally initiated by Pulte Homes of Texas, L.P. ("Pulte"). On December 29, 2008, BHM Highpointe, Ltd. ("BHM") acquired 311.58 acres, representing property in various stages of development including all as yet undeveloped property and 2 model lots, from Pulte. BHM sold approximately 22 acres to Standard Pacific Homes of Texas on June 3, 2010. Standard Pacific has fully developed the acreage purchased in 2010. HM Highpointe, Ltd. and HM Highpointe Development, Inc. (the "Developer") purchased 43 existing developed lots in various phases of the HighPointe subdivision in the



District and the remaining 147.13 acres of undeveloped but developable land in the District from BHM and its affiliate BHM 5.3 LLC on November 1, 2016. HM Highpointe, Ltd. has since sold its land holdings in the District to the Developer.

As of January 20, 2020, the District contained 475 developed acres comprising 962 single family residential lots. A total of 856 homes were completed and occupied, 29 homes were under construction or owned by a homebuilder and 77 lots were available for construction. As of this date, there were approximately 45.82 acres of undeveloped but developable land, and 319.03 acres of undevelopable land including future right-of-way and a wastewater treatment plant site. The Developer has begun construction of an additional 59 lots in Highpointe Phase 1 Section Three-B. Homes within the District range in price from approximately \$380,000 to over \$600,000.

**FUTURE DEVELOPMENT . . .** The District is currently planned as a primarily single-family residential development. Approximately 45.82 developable acres of land in the District are not yet served with water distribution and supply, wastewater collection and treatment or storm drainage facilities. While the Developer anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed.

The District anticipates issuing additional bonds to accomplish full development of the District. The Engineer has stated that under current development plans the remaining authorized but unissued new money bonds (\$22,880,000) will be sufficient to finance the construction of water, wastewater and storm drainage facilities to complete the District's wastewater system for full development of the District and to reimburse the Developer for funds subsequently advanced to construct and complete such facilities. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments," "– Future Debt" and "THE SYSTEM."

## **THE DEVELOPER**

**ROLE OF A DEVELOPER . . .** In general, the activities of a landowner or developer in a municipal utility district such as the District include conceptualizing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave certain streets in the District, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

**THE DEVELOPER . . .** Development within the District was originally initiated by Pulte Homes of Texas, L.P. ("Pulte"). On December 29, 2008, BHM Highpointe, Ltd. ("BHM") acquired 311.58 acres, representing property in various stages of development including all as yet undeveloped property and 2 model lots, from Pulte. BHM sold approximately 22 acres to Standard Pacific Homes of Texas on June 3, 2010. Standard Pacific has fully developed the acreage purchased in 2010. HM Highpointe, Ltd. and HM Highpointe Development, Inc. (the "Developer") purchased 43 existing developed lots in various phases of the HighPointe subdivision in the District and the remaining 147.13 acres of undeveloped but developable land in the District from BHM and its affiliate BHM HP 5.3 LLC on November 1, 2016. HM Highpointe, Ltd. has since sold its land holdings in the District to the Developer.

**DEVELOPMENT FINANCING . . .** On November 1, 2016, the Developer obtained financing from International Bank of Commerce for the purpose of acquiring and developing the remaining undeveloped property in the District.

HM Highpointe Development, Inc. obtained an acquisition and development loan in the amount of \$6,300,000 from International Bank of Commerce, N.A. for the purpose of acquiring and developing the 43 developed lots and the 20.027 acres of land to be developed into 53 lots in Highpointe Phase V, Section Three, and developing the balance of the land currently owned by HM Highpointe Development, Inc. As of January 20, 2020, the full outstanding loan balance has been repaid.

HM Highpointe, Ltd. obtained an acquisition loan in the amount of \$6,700,000 from International Bank of Commerce, N.A. for the purpose of acquiring the 127.103 acres of land. As of January 20, 2020, the full outstanding loan balance has been repaid.

**HOMEBUILDERS . . .** The homebuilders currently active within the District are Ashton Woods Homes and Highland Homes. Homebuilders that were previously active within the District were Wilshire Homes, L.P., Buffington Texas Classic Homes, LLC, Standard Pacific of Texas, Inc., Scott Felder Homes, LLC, MHI Central Texas, LLC and Megatel Homes, Inc. Homes within the District range in price from approximately \$380,000 to over \$600,000.

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**MANAGEMENT OF THE DISTRICT**

**BOARD OF DIRECTORS** . . . The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held on the uniform election date in November in even-numbered years only. Four of the Board members reside within the District and one of the Board members owns an undivided interest in a small parcel of land within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Schoenfeld	President	November 8, 2022
Tira Jones Holcomb	Vice President	November 8, 2022
James W. Greenway	Secretary	November 3, 2020
Linda Hubble	Assistant Secretary	November 3, 2020
Wade Morgan	Assistant Secretary	November 8, 2022

**DISTRICT CONSULTANTS** . . . The District does not have any full-time employees, but contracts for certain necessary services as described below.

Tax Appraisal: The Hays Central Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The District contracts with the Hays County Tax Assessor/Collector (the “Tax Assessor/Collector”) to serve in this capacity.

Operator and Management: The District has contracted with Crossroads Utility Services LLC for day-to-day management of utility operations and for general management services.

Engineer: The District’s consulting engineer is LJA Engineering, Inc.

Bookkeeper: The District has contracted with Bott & Douthitt, PLLC for bookkeeping services.

Auditor: The District’s financial statements for the year ended September 30, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See APPENDIX A for a copy of the District’s audited September 30, 2019 financial statements.

Bond Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as bond counsel in connection with the issuance of the District’s debt obligations. Bond Counsel fees are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Specialized Public Finance Inc. serves as the District’s financial advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

General Counsel: The District has engaged Armbrust & Brown, PLLC as general counsel to the District. Compensation to the firm for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Compensation for other legal services to the District is based on time charges actually incurred.

Underwriter’s Counsel: Orrick, Herrington & Sutcliffe LLP has been engaged as Underwriter’s Counsel in connection with the issuance of the Bonds. The fees of the attorneys in their capacity as Underwriter’s Counsel are contingent upon the sale and delivery of the Bonds.

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## THE SYSTEM

**REGULATION** . . . Construction and operation of the District’s sanitary sewer and storm drainage system as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The District is responsible for management, operation and maintenance of stormwater drainage and water quality facilities. Actual day-to-day management of such District facilities has been contracted for with Crossroads Utility Services, L.L.C. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City and Hays County. The TCEQ also exercises regulatory jurisdiction over the water and sanitary sewer facilities.

**WATER SUPPLY AND DISTRIBUTION/WASTEWATER COLLECTION AND TREATMENT** . . . All land in the District is located within the extraterritorial jurisdiction of the City. The City and the predecessor to the Developer have entered into an “Agreement Concerning Creation and Operation of Hays County Municipal Utility District No. 5 and Lands within the District” dated July 25, 2002, which covered the property originally included in the District and sets forth certain agreements concerning the development of land within the District and the issuance of bonds by the District. This agreement has been amended with the joiners of the owners of the annexed tracts, to cover the 49.1-acre and 9.73-acre tracts subsequently annexed by the District. See “RISK FACTORS – Utility Operations.”

The Lower Colorado River Authority (“LCRA”) contracted to provide permanent water supply for and retail water service to the District pursuant to a Utility Facilities Acquisition Agreement dated February 11, 2003 (“Water Supply Agreement”) between the LCRA and 156 Sawyer Ranch, LTD., which has assigned its rights to certain predecessors of the current Developer. Pursuant to the Water Supply Agreement, the LCRA purchased the water distribution facilities from the Developer and its predecessors, and the Developer and its predecessors conveyed such facilities to LCRA.

On November 17, 2010, LCRA announced its intention to divest its water and wastewater utility facilities, including the LCRA’s West Travis County Regional System (the “System”) which presently provides potable water to the District. The Water Supply Agreement provides that LCRA has the right upon the written consent of the District, which consent shall not be unreasonably withheld or delayed, to assign its rights under the Water Supply Agreement to any successor entity authorized by State law, provided that such successor shall succeed, as appropriate to all of the applicable rights and obligations of LCRA.

Pursuant to an Installment Purchase Agreement dated January 17, 2012, LCRA sold the System serving the District to the PUA. Commencing March 19, 2012, the PUA began providing retail water service to the District and is contractually obligated to provide water supply sufficient to serve the entire District through full build-out. The PUA is responsible for the financing, construction, operation and maintenance of the central facilities and infrastructure necessary to provide such service. The PUA is also responsible for maintaining the regulatory compliance of such facilities.

**WASTEWATER COLLECTION AND STORM DRAINAGE FACILITIES** . . . The District has constructed internal wastewater collection facilities and storm drainage to serve the District. Wastewater treatment for the District is provided by the District’s 150,000 gallon per day (GPD) wastewater treatment plant. The plant operates under TCEQ Permit #14358-001, which was renewed by the TCEQ on December 4, 2019. The District utilizes a 150,000 GPD subsurface drip irrigation system for effluent disposal. Such existing facilities provide sufficient treatment and disposal capacity to service all 856 existing single-family connections based upon current flows, which at present are averaging between 80%-90% of existing treatment and disposal capacity. The District has begun construction of the expansions of the District’s wastewater treatment plant and subsurface drip irrigation system for effluent disposal. Upon completion, the expansions will provide 220,000 GPD of capacity to serve up to 1,257 equivalent single-family connections. The expansion projects are being constructed and funded pursuant to the terms and conditions of the Wholesale Wastewater Services and Capacity Agreement dated September 14, 2015, by and among the District, HM Partner Ranch Development, Inc., and Springhollow Municipal Utility District, as assigned and amended. See “THE DISTRICT – Status of Development.”

**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. The Flood Insurance Rate Map associated with the District indicates that a portion of the land in the District is located within the 100-year flood plain. See “THE DISTRICT – Status of Development” and “INVESTMENT CONSIDERATIONS – Environmental Regulations – Atlas 14 Study.” No portion of the District that is within the floodplain is to be developed.

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## DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt <sup>(a)</sup>			The Bonds <sup>(b)</sup>			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
	2020	\$ 1,190,000	\$ 730,974	\$ 1,920,974	\$ -	\$ 26,311	
2021	1,040,000	601,819	1,641,819	35,000	112,763	147,763	1,789,581
2022	1,080,000	568,844	1,648,844	35,000	111,713	146,713	1,795,556
2023	910,000	537,944	1,447,944	240,000	110,663	350,663	1,798,606
2024	945,000	513,194	1,458,194	250,000	103,463	353,463	1,811,656
2025	970,000	486,619	1,456,619	265,000	95,963	360,963	1,817,581
2026	1,010,000	457,181	1,467,181	275,000	90,663	365,663	1,832,844
2027	1,040,000	426,181	1,466,181	280,000	85,163	365,163	1,831,344
2028	1,085,000	392,081	1,477,081	295,000	79,563	374,563	1,851,644
2029	1,115,000	356,431	1,471,431	300,000	73,663	373,663	1,845,094
2030	1,155,000	319,781	1,474,781	310,000	67,663	377,663	1,852,444
2031	1,215,000	281,200	1,496,200	320,000	61,463	381,463	1,877,663
2032	1,245,000	240,094	1,485,094	325,000	54,263	379,263	1,864,356
2033	1,300,000	197,194	1,497,194	340,000	46,950	386,950	1,884,144
2034	1,190,000	152,331	1,342,331	345,000	36,750	381,750	1,724,081
2035	1,240,000	111,619	1,351,619	360,000	28,125	388,125	1,739,744
2036	710,000	68,763	778,763	375,000	19,125	394,125	1,172,888
2037	185,000	45,250	230,250	390,000	9,750	399,750	630,000
2038	195,000	38,775	233,775	-	-	-	233,775
2039	205,000	31,950	236,950	-	-	-	236,950
2040	215,000	24,775	239,775	-	-	-	239,775
2041	225,000	17,250	242,250	-	-	-	242,250
2042	235,000	8,813	243,813	-	-	-	243,813
	<u>\$ 19,700,000</u>	<u>\$ 6,609,061</u>	<u>\$ 26,309,061</u>	<u>\$ 4,740,000</u>	<u>\$ 1,214,011</u>	<u>\$ 5,954,011</u>	<u>\$ 32,263,072</u>

(a) Excludes the Refunded Bonds.

(b) Interest calculated at the rates shown on page 2 hereof.

Average Annual Debt Service Requirements (2020-2042).....	\$ 1,402,742
Maximum Annual Debt Service Requirement (2020).....	\$ 1,947,285

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**ESTIMATED OVERLAPPING DEBT . . .** The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Except for amounts relating to the District, the District has not independently verified the accuracy or completeness of such information and no person is entitled to rely upon such information as being accurate or complete.

Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping Percent</u>	<u>Amount</u>
Hays County .....	\$ 508,600,154	1/31/20	1.50%	\$ 7,629,002
Dripping Springs Independent School District ...	292,244,999	1/31/20	6.34%	<u>18,528,333</u>
Total Estimated Overlapping Debt .....				\$ 26,157,335
The District's Total Direct Debt <sup>(a)</sup> .....				<u>24,440,000</u>
Total Direct and Estimated Overlapping Debt .....				\$ 50,597,335

Direct and Estimated Overlapping Debt as a Percentage of:  
 2019 Certified Taxable Assessed Valuation<sup>(b)</sup> ..... 14.14%

- (a) Excludes the Refunded Bonds and includes the Bonds.
- (b) As certified by the Hays Central Appraisal District (the "Appraisal District" or "HCAD").

**OVERLAPPING TAXES . . .** Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property.

The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt"), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2019 tax year by all taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2019 Tax Rate Per \$100 <u>Assessed Valuation</u>
Hays County .....	\$ 0.4227 <sup>(a)</sup>
Dripping Springs Independent School District.....	<u>1.4677</u>
Total Overlapping Tax Rate .....	\$ 1.8904
The District .....	<u>0.7190</u>
Total Tax Rate .....	\$ 2.6094

- (a) Includes Hays County road and bridge tax rate.

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**STATEMENT OF ACTIVITIES (GENERAL OPERATING FUND)**

	Governmental Activities			
	2019	2018	2017	2016 <sup>(a)</sup>
Wastewater Revenue	\$ 607,137	\$ 590,634	\$ 476,188	\$ 459,422
Property Tax Revenue	442,050	407,390	387,533	335,403
Other	70,022	51,197	20,231	5,288
Total Revenues	\$ 1,119,209	\$ 1,049,221	\$ 883,952	\$ 800,113
Utility Operating Expenses	\$ 454,666	\$ 422,900	\$ 373,707	\$ 383,212
Administrative Expenses	245,532	159,990	148,615	162,205
Capital Outlays	44,296	28,905	34,962	194,498
Other Expenses	32,660	47,954	35,916	31,981
Total Expenses	\$ 777,154	\$ 659,749	\$ 593,200	\$ 771,896
Excess/(deficiency)	\$ 342,055	\$ 389,472	\$ 290,752	\$ 28,217
Beginning General Fund Balance	1,783,754	1,394,282	1,103,530	1,075,313
Ending General Fund Balance	<u>\$ 2,125,809</u>	<u>\$ 1,783,754</u>	<u>\$ 1,394,282</u>	<u>\$ 1,103,530</u>

(a) Fiscal Year 2016 capital outlay related to wastewater system capacity expansion.

**TAX DATA**

**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. See “RISK FACTORS – Factors Affecting Taxable Values and Tax Payments,” “TAX DATA – Historical Tax Rate Distribution” and “Tax Roll Information” below, and “TAXING PROCEDURES.”

**MAINTENANCE TAX . . .** The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.00 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

**TAX EXEMPTIONS . . .** The District has not adopted any tax exemptions for property located within the District.

**ADDITIONAL PENALTIES . . .** The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty to defray the costs of collection.

**HISTORICAL TAX RATE**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Debt Service	\$ 0.7730	\$ 0.7000	\$ 0.7000	\$ 0.6200	\$ 0.5800
Maintenance	<u>0.1270</u>	<u>0.1292</u>	<u>0.1292</u>	<u>0.1300</u>	<u>0.1392</u>
Total	\$ 0.9000	\$ 0.8292	\$ 0.8292	\$ 0.7500	\$ 0.7190

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**HISTORICAL TAX COLLECTIONS . . .** The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s tax assessor/collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Net Certified Taxable	Tax Rate	Total <sup>(b)</sup> Tax Levy	Total Collections		As of
	Assessed Valuation <sup>(a)</sup>			Amount	Percent	
2014	195,661,962	0.9000	1,581,560	1,581,560	100.00%	09/30/15
2015	257,395,464	0.9000	1,929,931	1,900,982	98.50%	09/30/16
2016	283,586,829	0.8292	2,405,795	2,369,708	98.50%	09/30/17
2017	299,911,653	0.8292	2,486,867	2,484,380	99.90%	09/30/18
2018	330,589,691	0.7500	2,479,423	2,454,629	99.00%	09/30/19
2019	357,932,982	0.7190	2,573,538	N/A	N/A <sup>(c)</sup>	N/A <sup>(c)</sup>

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.

(c) In process of collection.

**TAX ROLL INFORMATION . . .** The District’s appraised value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES – Valuation of Property for Taxation”). The following represents the composition of property comprising the 2017, 2018 and 2019 Certified Taxable Appraised Valuations.

	2019 Certified Taxable <u>Appraised Valuation</u>	2018 Certified Taxable <u>Appraised Valuation</u>	2017 Certified Taxable <u>Appraised Valuation</u>
Land and Improvements	\$ 357,932,982	\$ 330,589,691	\$ 299,911,653
Total Appraised Valuation	\$ 357,932,982	\$ 330,589,691	\$ 299,911,653
Exemptions Granted by District	<u>0</u>	<u>0</u>	<u>0</u>
Total Taxable Appraised Valuation	<u>\$ 357,932,982</u>	<u>\$ 330,589,691</u>	<u>\$ 299,911,653</u>

**PRINCIPAL TAXPAYERS . . .** The following table represents the top ten principal taxpayers, the taxable appraised value of such property, and such property’s appraised value as a percentage of the 2019 Certified Taxable Assessed Valuation. The 2019 Certified Taxable Assessed Valuation is subject to protest, which could result in changes to the principal taxpayers lists.

Name of Taxpayer	2019 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
	Ashton Austin Residential LLC	\$ 2,599,250
Quiktrip Corporation	2,331,080	0.65%
HM Highpointe Ltd.	2,102,580	0.59%
Highland Homes-Austin LLC	1,765,630	0.49%
Romano, Richard Dominic	694,560	0.19%
Rice, Richard & Dana	693,090	0.19%
Magallanes, Orlando & Diana	658,110	0.18%
Schultz, Robert & Joann	650,000	0.18%
Dodson, James E. & Jennifer C.	639,860	0.18%
Gutierrez, Alfredo & Lisa	633,180	0.18%
	<u>\$ 12,767,340</u>	<u>3.57%</u>

**TAX ADEQUACY FOR DEBT SERVICE . . .** The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation as provided by the Hays Central Appraisal District of \$357,932,982. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the outstanding debt of the District when due (excluding the Refunded Bonds), assuming no further increase or any decrease in taxable values in the District, collection of ninety-seven and a half percent (97.5%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “DEBT SERVICE REQUIREMENTS.”

Average Annual Debt Service Requirement (2020-2042) .....	\$1,402,742
\$0.4020 Tax Rate on 2019 Certified Taxable Assessed Valuation at 97.5% collection.....	\$1,402,918
Maximum Annual Debt Service Requirement (2020).....	\$1,947,285
\$0.5580 Tax Rate on 2019 Certified Taxable Assessed Valuation at 97.5% collection.....	\$1,947,334

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . .** Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District’s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested



in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, 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." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and record in such rule, order, ordinance or resolution any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and

other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the treasurer, chief financial officer, and investment officers, and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

## TAXING 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 Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of Payment.” Under State law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its wastewater and drainage systems. See “TAX DATA – Maintenance Tax.”

**PROPERTY TAX CODE AND COUNTY WIDE APPRAISAL DISTRICT . . .** The Texas Tax Code (the “Property Tax Code”) provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (“Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Hays Central Appraisal District (the “Appraisal District”). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the “10% Homestead Cap”). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates. See “TAXING PROCEDURES – District and Taxpayer Remedies.”

### PROPERTY SUBJECT TO TAXATION BY THE DISTRICT

State Mandated Homestead Exemptions: State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions: The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

Personal Property: Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions: Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another

location within 175 days (“Goods-in-Transit”), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer’s retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

*Other Exempt Property:* Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

*Tax Abatement Agreements:* Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

**TAX ABATEMENT . . .** Hays County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Hays County, the Dripping Springs Independent School District and 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 years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised 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 agreement. 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.

In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

Oil and gas reserves are assessed on the basis of pricing information contained in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the property’s market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property’s appraised value in the preceding tax year, plus (b) the property’s appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. 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 being 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 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.

**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, 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 15 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, certain taxpayers, including the disabled, persons 65 years or older and disabled veterans, who qualified for certain tax exemptions are entitled by law to pay current taxes on a residential homestead in four installments with the first due before February 1 of each year and the final installment due before August 1 or to defer the payment of taxes without penalty during the time of ownership.

**ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE . . .** During the 86th Regular Legislative Session, Senate Bill 2 (“SB 2”) was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) 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 municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 herein as “Special Taxing Units.” Districts that have financed, completed, and issued bonds to pay for all land, 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 in the district, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

#### *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 in the district, subject to certain homestead exemptions, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

#### *The District*

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

**DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "TAX DATA – Estimated Overlapping Taxes"). 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. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "RISK FACTORS – Tax Collection Limitations and Foreclosure Remedies."

**THE EFFECT OF FIRREA ON TAX COLLECTIONS OF THE DISTRICT . . .** The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed. To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

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## LEGAL MATTERS

**LEGAL OPINIONS . . .** The District will furnish the Underwriter a transcript of certain 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 the State 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 legally binding obligations of the District. The District will also furnish the approving legal opinion of Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. See “APPENDIX A – Form of Bond Counsel’s Opinion.” Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions “SALE AND DISTRIBUTION OF BONDS – Securities Laws,” “PLAN OF FINANCING – Refunded Bonds,” “THE BONDS,” (except for the subcaptions “Book-Entry-Only System,” “DTC Redemption Provisions” and “Remedies in Event of Default”), “LEGAL MATTERS – Legal Opinions,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “Compliance with Prior Undertakings”) to determine that the information relating to the Bonds and the Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

**NO-LITIGATION CERTIFICATE . . .** The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, 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.

## TAX MATTERS

**OPINION . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”) for Federal income tax purposes (1) interest on the Bonds 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 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. See “APPENDIX B – Form of Bond Counsel’s Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate, and (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income 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 the covenants and 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. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such an opinion and is not a guarantee of result. 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 ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Bonds may be 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 Bonds, 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 redemption, sale or other taxable disposition of such Original Issue Discount Bonds 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 and 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 of 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.

**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, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, 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.

**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.

**INFORMATION REPORTING AND BACKUP WITHHOLDING . . .** Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**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.

**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 55(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(1)(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 covenants 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.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

## 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 from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District. 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 . . .** Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement for the sale of the Bonds. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities



to the issuer 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.

*Tax Assessor/Collector:* The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by the Hays County Tax Assessor/Collector's office and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

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

*Developer:* The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the sections captioned "THE DEVELOPER – The Developer" has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

### 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 specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge by the MSRB via the Electronic Municipal Market Access System ("EMMA") at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings "DEBT SERVICE REQUIREMENTS," and "APPENDIX A – Audited Financial Statement of the District." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information in an electronic format, all as prescribed by the MSRB.

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 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 12 months after the District's fiscal year end, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such twelve-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order, to such other account principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

**NOTICE OF CERTAIN EVENTS . . .** The District will provide timely notices of certain 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 the 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 by the Rule which includes debt, debt-like, and debt related obligations) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of

the District, any of which reflect financial difficulties. Neither the Bonds nor the Bond Order make any provision for debt service reserve or a trustee.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

**AVAILABILITY OF INFORMATION . . .** The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed with the MSRB pursuant to its Electronic Municipal Market Access (“EMMA”) System. The MSRB intends to make the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the last five years, the District has complied in all material respects with its continuing disclosure agreements made by it in accordance with the Rule.

## 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/ MICHAEL SCHOENFELD  
President, Board of Directors  
Hays County Municipal Utility District No. 5

ATTEST:

/s/ JAMES W. GREENWAY  
Secretary, Board of Directors  
Hays County Municipal Utility District No. 5

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS**

Unlimited Tax Bonds, Series 2012

Amount	Maturity	Coupon
\$ 95,000	8/15/2023 <sup>(1)</sup>	3.000%
100,000	8/15/2024 <sup>(1)</sup>	3.000%
105,000	8/15/2025 <sup>(1)</sup>	3.000%
110,000	8/15/2026 <sup>(1)</sup>	3.000%
115,000	8/15/2027 <sup>(1)</sup>	3.000%
125,000	8/15/2028 <sup>(1)</sup>	3.000%
130,000	8/15/2029 <sup>(1)</sup>	3.000%
135,000	8/15/2030 <sup>(1)</sup>	3.250%
145,000	8/15/2031 <sup>(1)</sup>	3.250%
150,000	8/15/2032 <sup>(1)</sup>	3.250%
160,000	8/15/2033 <sup>(1)</sup>	4.000%
165,000	8/15/2034 <sup>(1)</sup>	4.000%
175,000	8/15/2035 <sup>(1)</sup>	4.000%
185,000	8/15/2036 <sup>(1)</sup>	4.000%
195,000	8/15/2037 <sup>(1)</sup>	4.000%
<u>\$ 2,090,000</u>		

Redemption Date: 5/27/2020

Redemption Price: 100%

Unlimited Tax Bonds, Series 2013

Amount	Maturity	Coupon
\$ 110,000	8/15/2023	4.000%
115,000	8/15/2024	4.000%
125,000	8/15/2025	4.000%
130,000	8/15/2026 <sup>(1)</sup>	4.000%
135,000	8/15/2027 <sup>(1)</sup>	4.000%
140,000	8/15/2028 <sup>(1)</sup>	4.125%
145,000	8/15/2029 <sup>(1)</sup>	4.125%
155,000	8/15/2030 <sup>(1)</sup>	4.125%
160,000	8/15/2031 <sup>(1)</sup>	4.500%
165,000	8/15/2032 <sup>(1)</sup>	4.500%
175,000	8/15/2033 <sup>(1)</sup>	4.500%
180,000	8/15/2034 <sup>(1)</sup>	4.500%
190,000	8/15/2035	4.500%
200,000	8/15/2036 <sup>(1)</sup>	4.625%
210,000	8/15/2037 <sup>(1)</sup>	4.625%
<u>\$ 2,335,000</u>		

Redemption Date: 8/15/2020

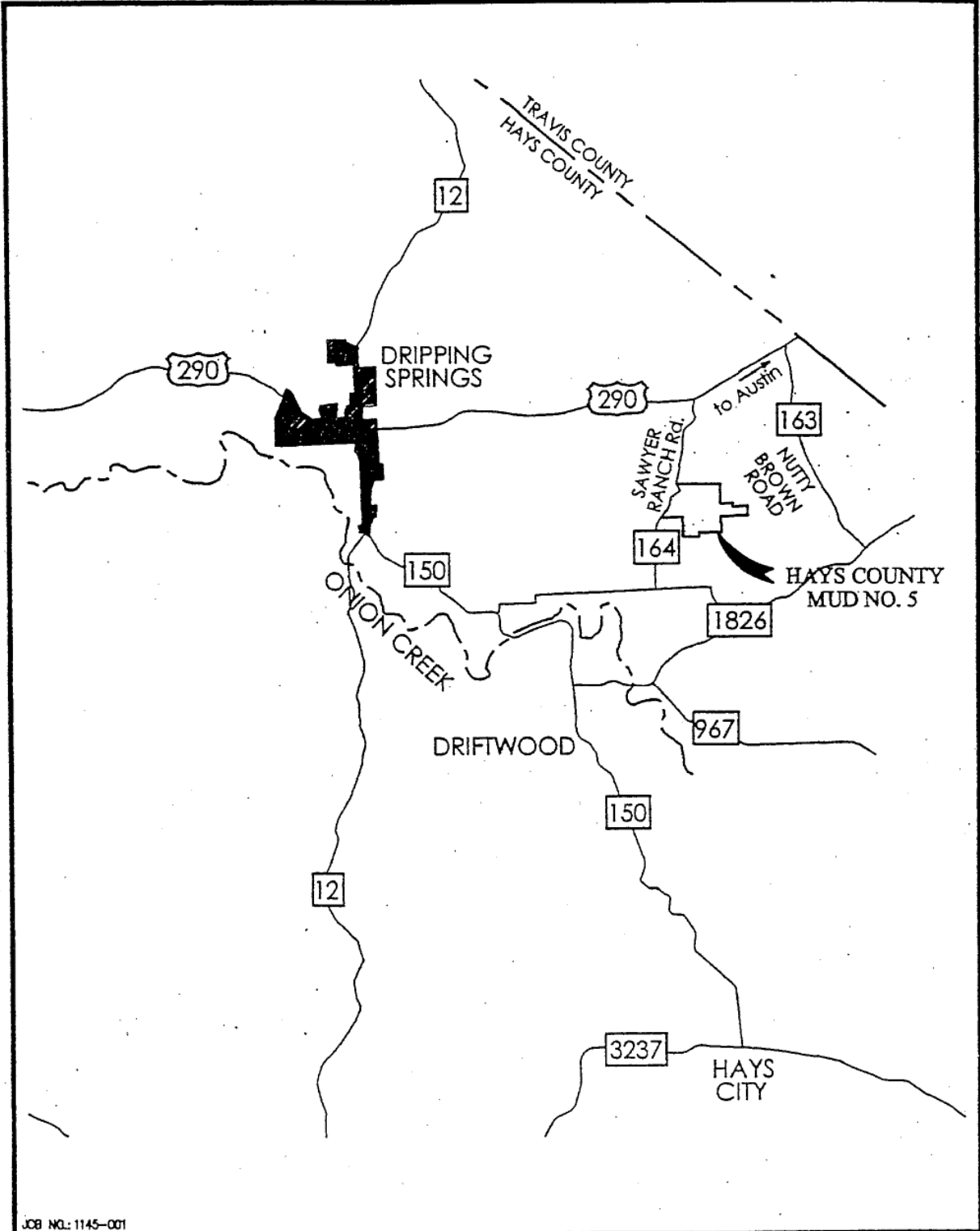
Redemption Price: 100%

<sup>(1)</sup> Term Bonds.

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**AERIAL BOUNDARY MAP**

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JOB NO.: 1145-001

CMA ENGINEERING, INC.  
 14101 WEST HIGHWAY 290  
 BUILDING 600  
 AUSTIN, TEXAS 78737  
 (512) 894-3230 Fax: (512) 894-3225

HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
 VICINITY MAP

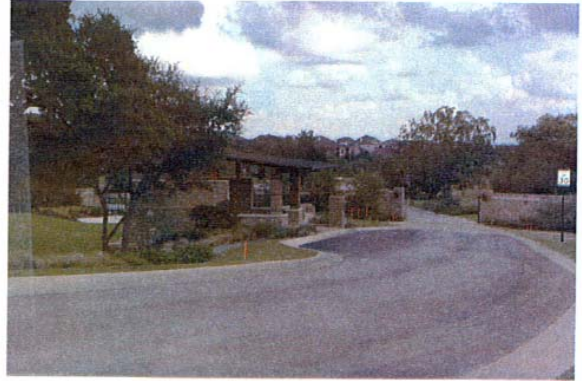
1

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**PHOTOGRAPHS OF THE DISTRICT**

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**APPENDIX A**

AUDITED FINANCIAL STATEMENT OF THE DISTRICT  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

9600 Great Hills Trail  
Suite 150W  
Austin, Texas 78759  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

Board of Directors  
Hays County Municipal Utility  
District No. 5  
Hays County, Texas

## Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Hays County Municipal Utility District No. 5 (the "District"), as of and for the year ended September 30, 2019, 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 September 30, 2019, 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 Budgetary Comparison Schedule – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are 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 Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Austin, Texas

January 27, 2020



**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Hays County Municipal Utility District No. 5 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2019. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the unassigned fund balance was \$2,125,809, an increase of \$342,055 from the previous fiscal year. General fund revenues increased from \$1,049,221 in the prior fiscal year to \$1,119,209. Property tax revenues increased due to an increase in the District's assessed valuations.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$2,461,687 in the previous fiscal year to \$2,617,468 in the current fiscal year. Debt service fund revenues decreased from \$2,260,123 in the previous fiscal year to \$2,189,615 in the current fiscal year due to a decrease in the tax rate allocated to the Debt Service Fund. The District made bond principal payments of \$1,120,000 and bond interest payments of \$843,728 during the current fiscal year. The District also issued \$4,445,000 of Series 2019 unlimited tax refunding bonds to refund \$4,190,000 of existing debt for a net present value savings of \$299,695.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$2,894,343 in the previous fiscal year to \$1,909,899. The District expended \$1,063,647 for infrastructure and \$19,100 for bond related items.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$996,469. Net position increased from \$1,252,229 to \$2,248,698.

**OVERVIEW OF THE DISTRICT**

The District is a political subdivision of the State of Texas created by order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the "Commission"), adopted on July 15, 2003 and confirmed at an election held within the District on November 2, 2004. The District operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide wastewater and storm drainage services to approximately 781.21 acres within its boundaries, all of which lie in Hays County, Texas. The District is located approximately 20 miles southwest of downtown Austin and approximately 6 miles east of the City of Dripping Springs, adjacent to County Road 164 (Sawyer Ranch Road). The District lies wholly within the extraterritorial jurisdiction of the City of Dripping Springs.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

**Summary Statement of Net Position**

	Governmental Activities		Change Increase (Decrease)
	2019	2018	
Current and other assets	\$ 7,432,808	\$ 7,357,715	\$ 75,093
Capital and non-current assets	19,261,538	18,605,605	655,933
<b>Total Assets</b>	<b>26,694,346</b>	<b>25,963,320</b>	<b>731,026</b>
Deferred Charges on Refunding	804,686	771,747	32,939
<b>Total Deferred Outflows of Resources</b>	<b>804,686</b>	<b>771,747</b>	<b>32,939</b>
Current Liabilities	2,021,424	1,424,906	596,518
Long-term Liabilities	23,228,910	24,057,932	(829,022)
<b>Total Liabilities</b>	<b>25,250,334</b>	<b>25,482,838</b>	<b>(232,504)</b>
Net Investment in Capital Assets	(2,402,677)	(2,906,237)	503,560
Restricted	2,523,793	2,351,367	172,426
Unassigned	2,127,582	1,807,099	320,483
<b>Total Net Position</b>	<b>\$ 2,248,698</b>	<b>\$ 1,252,229</b>	<b>\$ 996,469</b>

The District's net position increased by \$996,469 up to \$2,248,698 from the previous year's balance of \$1,252,229. Some of the District's assets are restricted for particular purposes, such as debt service or capital projects. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$2,127,582.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**Revenues and Expenses:**

**Summary Statement of Activities**

	Governmental Activities		Change Increase (Decrease)
	2019	2018	
Wastewater	\$ 607,137	\$ 590,634	\$ 16,503
Property taxes	2,557,468	2,607,116	(49,648)
Other	249,431	131,442	117,989
<b>Total Revenues</b>	<b>3,414,036</b>	<b>3,329,192</b>	<b>84,844</b>
Wastewater/pond system expenses	456,296	394,137	62,159
Legal fees	79,772	62,513	17,259
Engineering fees	73,782	35,242	38,540
Management fees	19,800	19,800	-
Other	119,450	137,689	(18,239)
Debt Service	1,215,034	1,165,382	49,652
Depreciation/amortization	453,433	452,754	679
<b>Total Expenses</b>	<b>2,417,567</b>	<b>2,267,517</b>	<b>150,050</b>
<b>Change in Net Position</b>	<b>996,469</b>	<b>1,061,675</b>	<b>(65,206)</b>
<b>Beginning Net Position</b>	<b>1,252,229</b>	<b>190,554</b>	<b>1,061,675</b>
<b>Ending Net Position</b>	<b>\$ 2,248,698</b>	<b>\$ 1,252,229</b>	<b>\$ 996,469</b>

Revenues were \$3,414,036 for the fiscal year ended September 30, 2019 while expenses were \$2,417,567. Net position increased \$996,469.

Property tax revenue in the current fiscal year is \$2,557,468. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District.

Property taxes levied for the 2018 tax year (September 30, 2019 fiscal year) were based upon a current adjusted assessed value of \$340,386,932 and a tax rate of \$0.75 per \$100 of assessed valuation. Property taxes levied for the 2017 tax year (September 30, 2018 fiscal year) were based upon an adjusted assessed value of \$313,706,382 and a tax rate of \$0.8292 per \$100 of assessed valuation.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>			
	2019	2018	2017	2016
Cash on deposit	\$ 188,572	\$ 131,702	\$ 211,326	\$ 380,189
Cash equivalent and investments	6,615,372	7,129,885	4,133,910	3,657,034
Receivables	635,935	192,251	111,057	193,915
<b>Total Assets</b>	<b>\$ 7,439,879</b>	<b>\$ 7,453,838</b>	<b>\$ 4,456,293</b>	<b>\$ 4,231,138</b>
Accounts payable	616,022	81,974	62,474	91,920
Other	160,371	228,679	213,460	157,315
<b>Total Liabilities</b>	<b>776,393</b>	<b>310,653</b>	<b>275,934</b>	<b>249,235</b>
Deferred Inflows of Resources	10,310	3,401	11,563	62,760
Restricted	4,527,367	5,356,030	2,774,514	2,815,613
Unassigned	2,125,809	1,783,754	1,394,282	1,103,530
<b>Total Fund Balance</b>	<b>6,653,176</b>	<b>7,139,784</b>	<b>4,168,796</b>	<b>3,919,143</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,439,879</b>	<b>\$ 7,453,838</b>	<b>\$ 4,456,293</b>	<b>\$ 4,231,138</b>

For the fiscal year ended September 30, 2019, the District's governmental funds reflect a combined fund balance of \$6,653,176.

This fund balance includes a \$342,055 increase in the General Fund generated by \$1,119,209 in revenues offset with \$777,154 in expenditures.

The Debt Service Fund reflects an increase of \$155,781 in fiscal year 2019. The Debt Service Fund remitted bond principal of \$1,120,000 and bond interest of \$843,728. The District also issued \$4,445,000 of Series 2019 unlimited tax refunding bonds to refund \$4,190,000 of existing debt for a net present value savings of \$299,695. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$984,444 decrease in fund balance for fiscal year 2019. The Capital Projects Fund disbursed \$1,063,647 for construction projects.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**BUDGETARY HIGHLIGHTS**

The *General Fund* pays for daily operating costs. On September 10, 2018, the Board of Directors approved a budget including revenues of \$1,045,090 as compared to expenditures of \$813,784. When comparing actual to budget, the District had a positive variance of \$110,749. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CAPITAL ASSETS**

The District's governmental activities had invested \$19,261,538 in land and infrastructure. The detail is reflected in the following schedule:

<u>Summary of Capital Assets, net</u>		
	9/30/2019	9/30/2018
Capital Assets:		
Land	\$ 1,359,111	\$ 1,359,111
Construction in progress	1,175,702	112,055
Water/Wastewater/Drainage	20,255,617	20,211,321
Equipment	7,900	7,900
Less: Accumulated Depreciation	(3,536,792)	(3,084,782)
<b>Total Net Capital Assets</b>	<b>\$ 19,261,538</b>	<b>\$ 18,605,605</b>

More detailed information about the District's capital assets is presented in the *Notes to the Financial Statements*.

**LONG TERM DEBT**

The District has the following balances outstanding on unlimited tax bonds:

	<u>Bonds Payable</u>
Series 2009	\$ 210,000
Series 2010	65,000
Series 2011	115,000
Series 2012 Refunding	4,970,000
Series 2012	2,345,000
Series 2013	2,645,000
Series 2015 Refunding	5,780,000
Series 2017	200,000
Series 2018	3,350,000
Series 2019 Refunding	4,445,000
<b>Total</b>	<b>\$ 24,125,000</b>

The District owes approximately \$24 million to bondholders. During the year, \$1,120,000 of principal and \$843,728 of interest was paid to bondholders. The ratio of the District's long-term debt to the 2018 total taxable assessed valuation (\$340,386,932) is 7.1%. The District's population as provided by the District as of January 3, 2019, is 2,772. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The amount of taxable assessed value of property within the District for the 2019 tax year (September 30, 2020 fiscal year) is approximately \$359.6 million, and the tax rate levied is \$0.719 per \$100 of assessed valuation. Approximately 19% of the tax revenues derived from this levy of taxes will be to fund General Fund costs, and approximately 81% of the property tax revenues will be used to make debt service payments on the District's bond debt.

The adopted budget for fiscal year 2020 projects a general fund balance increase of \$260,261.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.



# **FINANCIAL STATEMENTS**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
<b>ASSETS</b>						
Cash and cash equivalents -						
Cash, Note 3	\$ 188,572	\$ -	\$ -	\$ 188,572	\$ -	\$ 188,572
Cash equivalents	1,997,635	2,410,809	2,206,928	6,615,372	-	6,615,372
Investments	-	211,967	-	211,967	-	211,967
Receivables-						
Service accounts, no provision for uncollectible accounts	65,893	-	-	65,893	-	65,893
Taxes, no provision for uncollectible accounts	2,424	11,655	-	14,079	-	14,079
Interfund	47,181	-	-	47,181	(47,181)	-
Prepaid expenditures	-	-	-	-	40,110	40,110
Other	105	-	296,710	296,815	-	296,815
Capital assets, net of accumulated depreciation -						
Land	-	-	-	-	1,359,111	1,359,111
Construction in progress	-	-	-	-	1,175,702	1,175,702
Water/Wastewater/Drainage Facilities	-	-	-	-	16,726,725	16,726,725
<b>TOTAL ASSETS</b>	<b>\$ 2,301,810</b>	<b>\$ 2,634,431</b>	<b>\$ 2,503,638</b>	<b>\$ 7,439,879</b>	<b>19,254,467</b>	<b>26,694,346</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charges on refunding	\$ -	\$ -	\$ -	\$ -	804,686	804,686
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,301,810</b>	<b>\$ 2,634,431</b>	<b>\$ 2,503,638</b>	<b>\$ 7,439,879</b>	<b>\$ 20,059,153</b>	<b>\$ 27,499,032</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 61,038	\$ -	\$ 455,716	\$ 516,754	\$ -	\$ 516,754
Retainage payable	-	-	99,268	99,268	-	99,268
Accrued interest payable	-	-	-	-	102,212	102,212
Customer deposits	109,150	-	-	109,150	-	109,150
Review deposits held	4,040	-	-	4,040	-	4,040
Interfund payables	-	8,426	38,755	47,181	(47,181)	-
Bonds payable -						
Due within one year	-	-	-	-	1,190,000	1,190,000
Due after one year	-	-	-	-	23,228,910	23,228,910
<b>TOTAL LIABILITIES</b>	<b>174,228</b>	<b>8,426</b>	<b>593,739</b>	<b>776,393</b>	<b>24,473,941</b>	<b>25,250,334</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property taxes	1,773	8,537	-	10,310	(10,310)	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,773</b>	<b>8,537</b>	<b>-</b>	<b>10,310</b>	<b>(10,310)</b>	<b>-</b>
<b>FUND BALANCE / NET POSITION</b>						
Restricted for debt service	-	2,617,468	-	2,617,468	(2,617,468)	-
Restricted for capital projects	-	-	1,909,899	1,909,899	(1,909,899)	-
Unassigned	2,125,809	-	-	2,125,809	(2,125,809)	-
<b>TOTAL FUND BALANCES</b>	<b>2,125,809</b>	<b>2,617,468</b>	<b>1,909,899</b>	<b>6,653,176</b>	<b>(6,653,176)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 2,301,810</b>	<b>\$ 2,634,431</b>	<b>\$ 2,503,638</b>	<b>\$ 7,439,879</b>		
<b>NET POSITION:</b>						
Net investment in capital assets					(2,402,677)	(2,402,677)
Restricted for debt service					2,523,793	2,523,793
Unrestricted					2,127,582	2,127,582
<b>TOTAL NET POSITION</b>					<b>\$ 2,248,698</b>	<b>\$ 2,248,698</b>

*The accompanying notes are an integral part of this statement.*

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT**  
**OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**YEAR ENDED SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
<b>REVENUES:</b>						
Wastewater revenue, including penalties	\$ 607,137	\$ -	\$ -	\$ 607,137	\$ -	\$ 607,137
Property tax revenue, including penalties	442,050	2,108,509	-	2,550,559	6,909	2,557,468
System connection / inspection fees	26,400	-	-	26,400	-	26,400
Interest and other	43,622	81,106	98,303	223,031	-	223,031
<b>TOTAL REVENUES</b>	<b>1,119,209</b>	<b>2,189,615</b>	<b>98,303</b>	<b>3,407,127</b>	<b>6,909</b>	<b>3,414,036</b>
<b>EXPENDITURES / EXPENSES:</b>						
Current:						
Water purchases	9,347	-	-	9,347	-	9,347
Operations	50,556	-	-	50,556	-	50,556
Repairs and maintenance	138,786	-	-	138,786	-	138,786
Wastewater irrigation field maintenance	68,444	-	-	68,444	-	68,444
Sludge disposal	98,495	-	-	98,495	-	98,495
Utilities	38,088	-	-	38,088	-	38,088
Chemicals/lab fees	20,722	-	-	20,722	-	20,722
System connection/inspection fees	2,400	-	-	2,400	-	2,400
Billing services	27,828	-	-	27,828	-	27,828
Garbage fees	1,630	-	-	1,630	-	1,630
Director fees, including payroll taxes	11,153	-	-	11,153	-	11,153
Legal fees	79,772	-	-	79,772	-	79,772
Auditing fees	12,750	-	-	12,750	-	12,750
Engineering fees	73,782	-	-	73,782	-	73,782
Bookkeeping fees	22,950	-	-	22,950	-	22,950
Management fees	19,800	-	-	19,800	-	19,800
Other consulting fees	-	1,000	-	1,000	-	1,000
Tax/Appraisal fees	3,089	14,734	-	17,823	-	17,823
Insurance	20,206	-	-	20,206	-	20,206
Public notice	400	-	-	400	-	400
Other	32,660	508	-	33,168	-	33,168
Debt service:						
Principal	-	1,120,000	-	1,120,000	(1,120,000)	-
Interest	-	843,728	-	843,728	117,110	960,838
Fiscal agent fees	-	4,129	-	4,129	-	4,129
Bond issuance fees	-	249,685	19,100	268,785	(18,718)	250,067
Capital outlay	44,296	-	1,063,647	1,107,943	(1,107,943)	-
Depreciation/amortization	-	-	-	-	453,433	453,433
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>777,154</b>	<b>2,233,784</b>	<b>1,082,747</b>	<b>4,093,685</b>	<b>(1,676,118)</b>	<b>2,417,567</b>
Excess (deficiency) of revenues over (under) expenditures/expenses	342,055	(44,169)	(984,444)	(686,558)	1,683,027	996,469
<b>OTHER FINANCING SOURCES / (USES):</b>						
Bond proceeds	-	4,445,000	-	4,445,000	(4,445,000)	-
Bond premium	-	71,256	-	71,256	(71,256)	-
Bond issue discount	-	(38,849)	-	(38,849)	38,849	-
Payment to escrow agent	-	(4,277,457)	-	(4,277,457)	4,277,457	-
<b>TOTAL OTHER FINANCING SOURCES / (USES)</b>	<b>-</b>	<b>199,950</b>	<b>-</b>	<b>199,950</b>	<b>(199,950)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>342,055</b>	<b>155,781</b>	<b>(984,444)</b>	<b>(486,608)</b>	<b>486,608</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>					<b>996,469</b>	<b>996,469</b>
<b>FUND BALANCES / NET POSITION:</b>						
Beginning of the year	1,783,754	2,461,687	2,894,343	7,139,784	(5,887,555)	1,252,229
End of the year	<u>\$ 2,125,809</u>	<u>\$ 2,617,468</u>	<u>\$ 1,909,899</u>	<u>\$ 6,653,176</u>	<u>\$ (4,404,478)</u>	<u>\$ 2,248,698</u>

*The accompanying notes are an integral part of this statement.*

**NOTES TO THE  
FINANCIAL STATEMENTS**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board (GASB)*, which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created, organized and established on July 15, 2003, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resources Conservation Commission) pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Standards which are included in the District's reporting entity.

**Basis of Presentation - Government-wide and Fund Financial Statements** - These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

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

- 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.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

The financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-wide Statements:** The District's statement of net position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide statement of activities column reflects depreciation expense on the District's capital assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

**Governmental Fund Types** - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Debt Service Fund** - The Debt Service Fund is used to account for resources restricted, committed or assigned for the payment of, debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Non-current Governmental Assets and Liabilities* - GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

***Basis of Accounting***

*Government-wide Statements* - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

*Fund Financial Statements* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net current assets. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available)

"Measurable" means that the amount of the transaction can be determined and "available" means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports deferred inflows of resources on its balance sheet. Deferred inflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for deferred inflows is removed from the balance sheet and revenue is recognized.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

**Budgets and Budgetary Accounting** - A budget was adopted on September 10, 2018, for the General Fund on a basis consistent with GAAP. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end. The budget was not amended during the fiscal year.

**Pensions** - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be "employees" for federal payroll tax purposes only.

**Cash and Cash Equivalents** – Cash and cash equivalents includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of certificates of deposit and obligations in the State Treasurer's Investment Pool are recorded at amortized cost.

**Capital Assets** - Capital assets, which include Administrative Facilities and Equipment, Common and Recreation Areas, Water Production/Distribution System, Wastewater Collection System, Water Quality Ponds and Organizational Costs are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated acquisition value at the time received. Interest incurred during construction of capital facilities is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Administrative Facilities and Equipment	5 - 30
Common and Recreation Areas	5 - 30
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Water Quality Ponds	25
Organizational Costs	5

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



**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Long-Term Debt* - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

*Fund Balance* - Fund balances in governmental funds are classified using the following hierarchy:

- *Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.
- *Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.
- *Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.
- *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 does not have any assigned fund balances.
- *Unassigned*: all other spendable amounts in the General Fund.

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

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

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Fair Value Measurements* - The District adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations

*New Accounting Pronouncement* – In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 89 is to enhance the relevance and comparability of information about capital assets and to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements. Management has chosen to early implement GASB Statement No. 89 as of and for the year ended September 30, 2019.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS –**

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows :

Fund Balances -Total Governmental Funds		\$ 6,653,176
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -		
Capital assets	22,798,330	
Less: Accumulated depreciation	<u>(3,536,792)</u>	19,261,538
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		10,310
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -		
Bonds payable	(24,125,000)	
Issuance discount/(premium), net	(293,910)	
Bond insurance premium, net	40,110	
Deferred charge on refunding	804,686	
Accrued interest	<u>(102,212)</u>	<u>(23,676,326)</u>
Net Position - Governmental Activities		<u><u>\$ 2,248,698</u></u>

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

Net Change in Fund Balances - Governmental Funds		\$ (486,608)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Capital expenditures in period purchased	1,107,943	
Bond principal in year paid	1,120,000	
Interest expenditures in year paid	(117,110)	
Bond insurance premium in year paid	18,718	
Bond proceeds in year, net of discount/premium	(199,950)	
Tax revenue when collected	<u>6,909</u>	1,936,510
Governmental funds do not report -		
Depreciation/amortization		<u>(453,433)</u>
Change in Net Position - Governmental Activities		<u><u>\$ 996,469</u></u>

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**3. CASH AND INVESTMENTS**

The investment policies of the District are governed by State statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

*Cash.* At September 30, 2019, the carrying amount of the District's deposits was \$188,572 and the bank balance was \$190,211. The bank balance was fully covered by FDIC insurance.

*Interest rate risk.* In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

*Credit risk.* The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; and
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS (continued) -**

At September 30, 2019, the District held the following investments:

Investment	Fair Value at 9/30/2019	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
Texpool	\$ 6,615,372	\$ 1,997,635	\$ 2,410,809	\$ 2,206,928	AAAm	Standard & Poors
Money Market	211,967	-	211,967	-		
	<u>\$ 6,827,339</u>	<u>\$ 1,997,635</u>	<u>\$ 2,622,776</u>	<u>\$ 2,206,928</u>		

(1) Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes.

(2) Restricted for Purchase of Capital Assets.

The District's investment balances as of September 30, 2019, are as follows:

Investments Measured at Amortized Cost:	Current Investments	Long-Term Investments	% of Total Investments
TexPool	\$ 6,615,372	\$ -	96.9%
Money Market	211,967	-	3.1%
<b>Total Investments</b>	<u>\$ 6,827,339</u>	<u>\$ -</u>	<u>100%</u>

U.S. Government Agency Securities are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the state investment pool. The Comptroller maintains oversight of all operations of the pool.

*Concentration of credit risk.* In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

*Custodial credit risk-deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2019, the District's bank deposits were fully covered by FDIC insurance.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Hays County Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Hays County Tax Assessor/Collector bills and collects the District's property taxes. The Board of Directors set tax rates for the 2018 tax year on September 10, 2018.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2018 tax roll. The tax rate, based on total taxable assessed valuation of \$340,386,932 was \$0.75 on each \$100 valuation and was allocated \$0.13 to the General Fund and \$0.62 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 2, 2004.

Property taxes receivable at September 30, 2019, consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
Current year levy	\$ 2,283	\$ 10,888	\$ 13,171
Prior years' levies	141	767	908
	\$ 2,424	\$ 11,655	\$ 14,079

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**5. INTERFUND ACCOUNTS**

A summary of interfund accounts, which resulted from the time lag between dates that payments between funds are made, is as follows at September 30, 2019:

	<b>Interfund</b>	
	<b>Receivables</b>	<b>Payables</b>
<b>General Fund -</b>		
Debt Service Fund	\$ 8,426	\$ -
Capital Projects Fund	38,755	-
<b>Debt Service Fund -</b>		
General Fund	-	8,426
<b>Capital Projects Fund -</b>		
General Fund	-	38,755
	\$ 47,181	\$ 47,181

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 10/1/2018	Additions	Deletions	Balance 9/30/2019
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,359,111	\$ -	\$ -	\$ 1,359,111
Construction in progress	112,055	1,063,647	-	1,175,702
<b>Total capital assets not being depreciated</b>	<b>1,471,166</b>	<b>1,063,647</b>	<b>-</b>	<b>2,534,813</b>
<b>Capital assets being depreciated:</b>				
Water/Wastewater/Drainage Improvements	20,211,321	44,296	-	20,255,617
Equipment	7,900	-	-	7,900
<b>Total capital assets being depreciated</b>	<b>20,219,221</b>	<b>44,296</b>	<b>-</b>	<b>20,263,517</b>
<b>Less accumulated depreciation for :</b>				
Water/Wastewater/Drainage Improvements	(3,077,101)	(451,791)	-	(3,528,892)
Equipment	(7,681)	(219)	-	(7,900)
<b>Total accumulated depreciation</b>	<b>(3,084,782)</b>	<b>(452,010)</b>	<b>-</b>	<b>(3,536,792)</b>
<b>Total capital assets being depreciated, net of accumulated depreciation</b>	<b>17,134,439</b>	<b>(407,714)</b>	<b>-</b>	<b>16,726,725</b>
<b>Total capital assets, net</b>	<b>\$ 18,605,605</b>	<b>\$ 655,933</b>	<b>\$ -</b>	<b>\$ 19,261,538</b>

**7. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2019:

	Unlimited Tax and Revenue Bonds
Bonds payable at October 1, 2018	\$ 24,990,000
Bonds issued	4,445,000
Bonds refunded	(4,190,000)
Bonds retired	(1,120,000)
Bond (discount)/premium, net	293,910
<b>Bonds payable at September 30, 2019</b>	<b>\$ 24,418,910</b>

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**7. BONDED DEBT (continued) -**

Bonds payable at September 30, 2019, were comprised of the following individual issues:

**Unlimited Tax Bonds:**

\$210,000 – 2009 Unlimited Tax Bonds payable serially through the year 2020 at an interest rate of 5.80%. Bonds maturing on and after August 15, 2019, 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 August 15, 2018, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.

\$65,000 – 2010 Unlimited Tax Bonds payable serially through the year 2020 at an interest rate of 3.625%.

\$115,000 – 2011 Unlimited Tax Bonds payable serially through the year 2020 at interest rate of 4.00%.

\$2,345,000 – 2012 Unlimited Tax Bonds payable serially through the year 2037 at interest rates which range from 2.00% to 4.00%. Bonds maturing on and after August 15, 2020, 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 August 15, 2019, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, Term Bonds maturing on August 15 in the years 2020, 2022, 2025, 2027, 2029, 2032, and 2037 are subject to mandatory sinking fund redemption.

\$2,645,000 – 2013 Unlimited Tax Bonds payable serially through the year 2037 at interest rates which range from 3.00% to 4.625%. Bonds maturing on and after August 15, 2021, 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 August 15, 2020, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, Term Bonds maturing on August 15 in the years 2027, 2030, 2034 and 2037 are subject to mandatory sinking fund redemption.



**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**7. BONDED DEBT (continued) -**

\$200,000 – 2017 Unlimited Tax Bonds payable serially through the year 2020 at an interest rate of 2.00%.

\$3,350,000 – 2018 Unlimited Tax Bonds payable serially through the year 2042 at interest rates which range from 3.00% to 3.75%. Bonds maturing on and after August 15, 2024, 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 August 15, 2023, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, Term Bonds maturing on August 15 in the years 2028, 2030, 2032, 2034, 2036, 2038 and 2042 are subject to mandatory sinking fund redemption.

**Unlimited Tax Refunding Bonds:**

\$4,970,000 – 2012 Unlimited Tax Refunding Bonds payable serially through the year 2035 at interest rates which range from 3.00% to 4.00%. Bonds maturing on and after August 15, 2023, 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 August 15, 2022, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, Term Bonds maturing on August 15 in the years 2033 and 2035 are subject to mandatory sinking fund redemption.

\$5,780,000 – 2015 Unlimited Tax Refunding Bonds payable serially through the year 2035 at interest rates which range from 2.00% to 3.375%. Bonds maturing on and after August 15, 2023, 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 August 15, 2022, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, Term Bonds maturing on August 15 in the years 2026 and 2035 are subject to mandatory sinking fund redemption.

\$4,445,000 – 2019 Unlimited Tax Refunding Bonds payable serially through the year 2036 at interest rates which range from 3.00% to 3.25%. Bonds maturing on and after August 15, 2028, 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 August 15, 2027, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**7. BONDED DEBT (continued) –**

The annual requirements to amortize all bonded debt at September 30, 2019, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2020	\$ 1,190,000	\$ 817,690	\$ 2,007,690
2021	1,040,000	775,258	1,815,258
2022	1,080,000	742,278	1,822,278
2023	1,115,000	711,385	1,826,385
2024	1,160,000	679,378	1,839,378
2025-2029	6,480,000	2,826,106	9,306,106
2030-2034	7,695,000	1,641,266	9,336,266
2035-2039	3,690,000	397,745	4,087,745
2040-2042	675,000	50,837	725,837
	\$ 24,125,000	\$ 8,641,943	\$ 32,766,943

On May 21, 2019, the District issued unlimited tax refunding bonds of \$4,445,000 (par value) with interest rates ranging from 3.00% to 3.25% to currently refund \$895,000 of Series 2010 unlimited tax bonds with interest rates of 3.875% to 4.50% and \$3,295,000 of Series 2011 unlimited tax bonds with interest rates of 4.00% to 4.75%. The bonds had maturity dates of August 15, 2021 through August 15, 2036. The first optional redemption date is June 21, 2019. The unlimited tax refunding bonds were issued at par plus a re-offering premium and, after paying issuance costs of \$249,685, the net proceeds were \$4,277,457. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 2010 and Series 2011 bonds are paid. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2010 and Series 2011 bonds were removed from bonds payable. The reacquisition price exceeded the net carrying amount of the old debt by \$87,457. This amount is netted against the new debt and amortized over the life of the refunded debt which is the same as the life of the new debt issued. The advance refunding resulted in an economic gain of \$299,695.

Bonds authorized but not issued as of September 30, 2019, are as follows:

Type	Amount
Unlimited Tax Bonds	\$ 22,880,000
Refunding Bonds	\$ 73,590,000

\$2,617,468 is available in the Debt Service Fund to service the bonded debt.

The existing outstanding bonds of the District 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.

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**8. DEFERRED OUTFLOWS OF RESOURCES**

The following is a summary of changes in deferred outflows of resources for the year ended September 30, 2019:

Deferred charges on bond refunding - October 1, 2018	\$ 771,747
Additions from Series 2019 refunding	87,457
Retirements from Series 2015 and 2019 refundings	<u>(54,518)</u>
Deferred charges on bond refunding - September 30, 2019	<u>\$ 804,686</u>

**9. COMMITMENTS AND CONTINGENCIES**

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of September 30, 2019, has recorded no liability pertaining to such costs.

**10. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (TML Pool) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2019**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Wastewater revenue, including penalties	\$ 607,137	\$ 604,719	\$ 2,418
Property tax revenue, including penalties	442,050	421,171	20,879
System connection/inspection fees	26,400	13,200	13,200
Interest	43,622	6,000	37,622
<b>TOTAL REVENUES</b>	<u>1,119,209</u>	<u>1,045,090</u>	<u>74,119</u>
<b>EXPENDITURES:</b>			
Current:			
Water purchases	9,347	39,000	29,653
Operations	50,556	52,104	1,548
Repairs and maintenance	138,786	139,000	214
Wastewater irrigation field maintenance	68,444	92,000	23,556
Sludge disposal	98,495	94,800	(3,695)
Utilities	38,088	34,860	(3,228)
Chemicals / Lab fees	20,722	22,200	1,478
System connection/inspection fees	2,400	1,200	(1,200)
Billing services	27,828	32,085	4,257
Garbage fees	1,630	1,800	170
Director fees, including payroll taxes	11,153	12,770	1,617
Legal fees	79,772	72,000	(7,772)
Auditing fees	12,750	12,750	-
Engineering fees	73,782	33,000	(40,782)
Bookkeeping fees	22,950	21,750	(1,200)
Management fees	19,800	20,400	600
Other consulting fees	-	6,000	6,000
Tax/Appraisal fees	3,089	4,750	1,661
Insurance	20,206	16,450	(3,756)
Public notice	400	1,440	1,040
Other	32,660	23,425	(9,235)
Capital Outlay	44,296	80,000	35,704
<b>TOTAL EXPENDITURES</b>	<u>777,154</u>	<u>813,784</u>	<u>36,630</u>
Excess / (deficiency) of revenues and other over expenditures	<u>342,055</u>	<u>\$ 231,306</u>	<u>\$ 110,749</u>
<b>FUND BALANCE :</b>			
Beginning of the year	<u>1,783,754</u>		
End of the year	<u>\$ 2,125,809</u>		

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**APPENDIX B**

FORM OF BOND COUNSEL'S OPINION

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*[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.]*

**HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5  
UNLIMITED TAX REFUNDING BONDS, SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,740,000**

**AS BOND COUNSEL FOR HAYS COUNTY MUNICIPAL UTILITY DISTRICT NO. 5** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on February 17, 2020, authorizing the issuance of the Bonds and the pricing certificate executed by the pricing officer as designated in the order (collectively, the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



**IT IS FURTHER OUR OPINION** that, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of Public Finance Partners LLC and certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain representations and covenants, regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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**APPENDIX C**

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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## 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







**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES