

OFFICIAL STATEMENT DATED MAY 11, 2020

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196 AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The Bonds are not "qualified tax-exempt obligations."

NEW ISSUE - Book-Entry-Only

**Ratings: S&P Global Ratings (AGM Insured) "AA" (stable outlook)
Moody's Investors Service, Inc. (AGM Insured) . . . "A2" (stable outlook)
Moody's Investors Service, Inc. (Underlying)... "A2"
See "BOND INSURANCE" and "RATINGS" herein**

\$18,435,000

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
(A Political Subdivision of the State of Texas located within Harris County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

Dated: June 1, 2020

Due: September 1, as shown on inside cover

Principal of the above bonds (the "Bonds") is payable by the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N.A., currently in Dallas, Texas, or any successor paying agent/registrars (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from June 1, 2020, and is payable on September 1, 2020 (three-month interest payment), and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer").



SEE MATURITY SCHEDULE ON THE INSIDE COVER

If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

The proceeds of the sale of the Bonds, plus certain other lawfully available funds of the District, will be applied to refund certain outstanding bonds of the District and to pay the costs of issuance of the Bonds. See "PLAN OF FINANCING — Use of Bond Proceeds." The Bonds, when issued, constitute valid and binding obligations of the District, and are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment." Neither the State of Texas, the City of Houston, Texas, or Harris County, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas, the City of Houston, Texas, or Harris County, Texas, is pledged to the payment of the principal of and interest on the Bonds.

The Bonds are offered when, as and if issued by the District, subject among other things to the approval of the Attorney General of Texas and of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriters' Counsel. Delivery of the Bonds in book-entry form is expected on or about June 23, 2020.

SAMCO CAPITAL MARKETS

RBC CAPITAL MARKETS

MATURITY SCHEDULE
CUSIP Prefix (a) 413954

| Principal Amount | Maturity (Due September 1) | Interest Rate | Initial Reoffering Yield (b) | CUSIP Suffix (a) | Principal Amount | Maturity (Due September 1) | Interest Rate | Initial Reoffering Yield (b) | CUSIP Suffix (a) |
|-------------------------|-----------------------------------|----------------------|-------------------------------------|-------------------------|-------------------------|-----------------------------------|----------------------|-------------------------------------|-------------------------|
| \$ 205,000 | 2020 | 4.00% | 1.42% | JH2 | \$ 1,480,000 | 2028(c) | 2.00% | 2.11% | JR0 |
| 85,000 | 2021 | 4.00 | 1.45 | JJ8 | 1,510,000 | 2029(c) | 2.00 | 2.17 | JS8 |
| 1,090,000 | 2022 | 4.00 | 1.50 | JK5 | 1,560,000 | 2030(c) | 2.00 | 2.29 | JT6 |
| 1,190,000 | 2023 | 4.00 | 1.54 | JL3 | 1,590,000 | 2031(c) | 2.00 | 2.39 | JU3 |
| 1,175,000 | 2024 | 4.00 | 1.64 | JM1 | 1,625,000 | 2032(c) | 2.25 | 2.49 | JV1 |
| 1,215,000 | 2025 | 4.00 | 1.71 | JN9 | 1,665,000 | 2033(c) | 2.25 | 2.59 | JW9 |
| 1,150,000 | 2026(c) | 3.00 | 1.83 | JP4 | 1,710,000 | 2034(c) | 2.25 | 2.63 | JX7 |
| 1,185,000 | 2027(c) | 2.00 | 2.06 | JQ2 | | | | | |

- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District (defined herein), the Financial Advisor (defined herein), nor the Underwriter (defined herein) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter (as defined herein). Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed. Accrued interest is to be added to the price.
- (c) The Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of Harris County Municipal Utility District No. 196 (the "District"), as a whole or in part, on September 1, 2025, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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APPENDIX A - LOCATION MAP

APPENDIX B - ANNUAL FINANCIAL REPORT

APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

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.

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 Bond Counsel, 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 that they will be realized.

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.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, the other matters described in this Official Statement until the delivery of the Bonds to the Underwriter and thereafter only as specified herein. See "OFFICIAL STATEMENT - Updating of Official Statement."

The Underwriters (defined herein) have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Neither the District nor the Underwriters makes any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

Assured Guaranty Municipal Corp. ("AGM" or the Insurer") 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 OF MUNICIPAL BOND INSURANCE POLICY."

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. and RBC Capital Markets, LLC (“RBC”) together referred to herein as the “Underwriter” or the “Underwriters”), have agreed to purchase the Bonds pursuant to a bond purchase agreement (the “Bond Purchase Agreement”) from the District for \$18,451,392.15 (an amount equal to the principal amount of the Bonds, less an Underwriter’s discount of \$131,810.25, plus a net original issue premium on the Bonds of \$148,202.40), plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others a price lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

RBC has provided the following information for inclusion in this Official Statement: RBC and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBC and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBC and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the District. RBC and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBC and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have 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 Underwriters regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriters at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained

therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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 March 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,573 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$997 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,997 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 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 RISK FACTORS

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.

In the event the Insurer 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 the Insurer 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 the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "BOND INSURANCE" and "RATINGS" herein.

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

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

RATINGS

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and "A2" (stable outlook) from Moody's Investors Service ("Moody's") based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the Bonds assigned by Moody's is "A2."

An explanation of the significance of the foregoing ratings may be obtained only from S&P and Moody's. The foregoing ratings express only the view of S&P and Moody's at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P or Moody's, if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the ratings of Moody's and S&P. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS."

OFFICIAL STATEMENT SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes.

THE BONDS

The Issuer Harris County Municipal Utility District No. 196 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue \$18,435,000 Harris County Municipal Utility District No. 196 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”), are dated June 1, 2020. The Bonds are issued as serial bonds maturing on September 1 in each of the years 2020 through 2034, inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds accrues from June 1, 2020, at the rates for each maturity set forth on the inside cover page of this Official Statement, and is payable on September 1, 2020 (three-month interest period), and on each March 1 and September 1 thereafter until maturity or redemption. Bonds scheduled to mature on and after September 1, 2026, are subject to redemption, in whole or in part from time to time, at the option of the District on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Bonds are issued pursuant to a bond order (the “Bond Order”) adopted by the Board of Directors of the District. The Bonds are issued in fully registered form only, transferrable only upon presentation to the Registrar. The Bonds are issued in the denomination of \$5,000 each, or integral multiples thereof. See “THE BONDS - General” and - “Redemption Provisions.”

Book-Entry-Only System The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

Source of Payment Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District, and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, Texas, nor the City of Houston, Texas, is pledged to the payment of the principal of and interest on the Bonds. See “THE BONDS - Source of Payment.”

Use of Proceeds

Proceeds of the sale of the Bonds, plus certain funds of the District that are lawfully available for such purpose, will be applied to refund \$4,360,000 of the District’s Unlimited Tax Refunding Bonds, Series 2010, \$9,285,000 of the District’s Unlimited Tax Refunding Bonds, Series 2012 and \$3,975,000 of the District’s Unlimited Tax Refunding Bonds, Series 2013 (collectively, the “Refunded Bonds”). The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Bonds are being issued to reduce the District’s debt service payments, and result in present value savings. See “DISTRICT DEBT - Debt Service Requirement Schedule.”

Authority for Issuance

At elections held within the District on April 19, 1997 and February 5, 2000, the District’s voters authorized the issuance of a total of \$49,000,000 unlimited tax bonds for financing District facilities or for refunding outstanding bonds. At an election held within the District on May 12, 2007, the District’s voters authorized the issuance of a total of \$3,000,000 unlimited tax bonds for financing parks and recreational facilities. The District has called an election to be held on November 3, 2020, to authorize the issuance of \$40,000,000 unlimited tax bonds for acquisition or construction of components of the System. The District cannot represent that the issuance of such bonds will be authorized by the voters.

The Bonds are issued pursuant to the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, as amended, and Article XVI, Section 59 of the Texas Constitution.

Following the issuance of the Bonds, \$4,231,795.50 additional parity bonds for acquisition or construction of components of the System or for refunding purposes, and \$500,000 for recreational facilities will remain authorized for issuance by the District. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” “PLAN OF FINANCING,” “DISTRICT DEBT - Debt Service Requirement Schedule” and “THE SYSTEM.”

Payment Record

The Bonds are the twelfth issue of bonds of the District for acquisition and construction of the System (defined below) or parks and recreational facilities or refunding of outstanding bonds. The District has previously issued Unlimited Tax Bonds, Series 1998 (the “Series 1998 Bonds”); Unlimited Tax Bonds, Series 2000 (the “Series 2000 Bonds”); Unlimited Tax Bonds, Series 2002 (the “Series 2002 Bonds”); Unlimited Tax Bonds, Series 2006 (the “Series 2006 Bonds”), Unlimited Tax Bonds, Series 2016 (the “Series 2016 Bonds”) and Unlimited Tax Bonds, Series 2018 (the “Series 2018 Bonds”) to finance components of the System; Unlimited Tax Bonds, Series 2009 (the “Series 2009 Bonds”) to finance the acquisition or construction of recreational facilities to serve the District; and Unlimited Tax Refunding Bonds, Series 2006 (the “Series 2006 Refunding Bonds”); Unlimited Tax Refunding Bonds, Series 2010 (the “Series 2010 Refunding Bonds”); Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Refunding Bonds”) and Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”) to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all of such debt obligations heretofore issued by the District as the

“Prior Bonds.” The District has timely paid all payments of principal of and interest on the Prior Bonds when due. Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is \$32,465,000 (collectively, the “Outstanding Bonds”). After issuance of the Bonds, the aggregate principal amount of the District's outstanding bonded indebtedness, consisting of the maturities of the Prior Bonds not heretofore paid by the District, and less the Refunded Bonds, will be \$14,845,000 (collectively, the “Remaining Outstanding Bonds”), and the aggregate principal amount of the District’s bonded indebtedness, including the Bonds, will be \$33,280,000. See “PLAN OF FINANCING,” and “DISTRICT DEBT - Debt Service Requirement Schedule.”

Not Qualified Tax-Exempt Obligations .

The Bonds are **not** “qualified tax-exempt obligations” for financial institutions pursuant to Section 265(a) of the Internal Revenue Code.

Municipal Bond Insurance

Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”

Municipal Bond Ratings

S&P Global Ratings (AGM insured)... “AA” (stable outlook). Moody’s Investors Service (AGM insured) “A2” (stable outlook). Moody’s Investors Service, Inc. (Underlying)... “A2”. See “BOND INSURANCE” and “RATINGS.”

Paying Agent/Registrar

The Paying Agent/Registrar of the Bonds is The Bank of New York Mellon Trust Company, N.A., with its principal payment office currently in Dallas, Texas.

Legal and Tax Opinions

Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS” and “TAX MATTERS.”

Verification Agent

Robert Thomas, CPA, LLC. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.”

THE DISTRICT

The District

Harris County Municipal Utility District No. 196 was created by the Texas Water Commission, now the Texas Commission on Environmental Quality (the “TCEQ”), on December 15, 1981, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 703.5857 acres of land. The District is located entirely within Harris County, Texas, approximately 23 miles northwest of the central business district of the City of Houston, Texas. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the Cypress-Fairbanks Independent School District. The District is located approximately 2 miles south of the intersection of U.S. Highway 290 and Barker-Cypress Road. Barker-Cypress Road transverses the District. See “THE DISTRICT - Authority” and - “Description,” “AERIAL PHOTOGRAPH OF THE DISTRICT,” and “APPENDIX A - LOCATION MAP.”

Authority

The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas

Water Code. See “THE DISTRICT- Authority.” The District was created to finance the acquisition or construction of water distribution, wastewater collection and storm drainage facilities, and related projects (the “System”) to serve the land located within the District. See “THE SYSTEM”.

Development of the District

Land within the District is being developed primarily for single-family residential usage. As of February 1, 2020, the District contained a total of 2,043 single-family residences, including 39 residences under construction. See “BUILDER” below. In addition, a total of approximately 365,530 square feet of commercial, office, storage and retail establishments and 228 apartment units have been constructed within the District as is described below.

The development of 2,043 single-family residential lots (633.5 total acres) is complete in Riata Ranch, Sections 1 through 11, Riata West, Barker Lake, Sections 1 and 2 and Alder Trails, Sections 1 through 13. All of such lots have been provided water supply and distribution, wastewater collection and treatment and storm drainage facilities (the “System”) and street paving. Approximately 62.8 of such 633.5 acres are located in drainage rights-of-way, District plant sites or are otherwise not available for future development, and approximately 22.0 of such 633.5 acres have been developed as 4 recreational reserves, on which clubhouses, pools, and tennis courts have been constructed.

The 228-unit Waterford Place at Riata Ranch Apartments have been constructed on an approximately 11.8 acre tract within the District. The Cypress-Fairbanks Independent School District Elementary School #54 has been constructed on an approximately 14.8 acre tract within the District. Approximately 365,530 square feet of commercial, office, storage and retail establishments have been constructed on approximately 34.75 acres of land located within the District. Approximately 9.0 acres located within the District are served by trunk water, sewer and drainage facilities and are available for construction of above-ground improvements.

Taylor Morrison of Texas, Inc. is currently constructing homes in Alder Trails as is described below under the caption “BUILDER.”

The District financed the cost of acquiring and constructing components of the System to serve Riata Ranch, Sections 1 through 11, Riata West, Barker Lake, Sections 1 and 2, Alder Trails, Sections 1 through 13, Saddle Springs Lane, the Walgreens Commercial Tract, Barker Commons, Phase 1, Segments A through F, Barker Commons, Phase II, Segments A through C, Barker Cypress Service Station, and Market at Alder Trails; water plant improvements; wastewater treatment plant improvements; Riata Ranch Park; Barker Lake Park; Riata West Park; Alder Trails detention and lift station; Queenston Boulevard; and other facilities with the proceeds of the sale of the Prior Bonds. In addition to the components of the District’s System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See “THE BONDS - Authority for Issuance,” - “Issuance of Additional Debt,” and - “Use and Distribution of Bond Proceeds,” “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

The Developer

The developer of Alder Trails, Sections 1 through 13 is Taylor Morrison of Texas, Inc. ("TM"). TM is wholly-owned by Taylor Morrison Home Corporation, a Delaware corporation, which is a public corporation whose stock is listed on the New York Stock Exchange. TM has retained Johnson Development Services to develop Alder Trails on TM's behalf in consideration of the payment of a fee. TM owns no additional land located within the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "THE DEVELOPER." TM (the "Builder") is currently constructing homes in Alder Trails as described below under the caption "Builder."

Builder

TM is currently constructing homes in Alder Trails. According to TM, homes that are being constructed in Alder Trails range in size from approximately 1,500 to 5,084 square feet of living area and in sales price from approximately \$200,000 to \$500,000.

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION

| | |
|---|-------------------------|
| 2019 Assessed Valuation | \$543,044,750(a) |
| (As of January 1, 2019) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| Direct Debt | |
| Remaining Outstanding Bonds | \$ 14,845,000 |
| The Bonds | <u>18,435,000</u> |
| Total | \$ 33,280,000(b) |
| Estimated Overlapping Debt | <u>\$ 29,825,543(b)</u> |
| Total Direct and Estimated Overlapping Debt | <u>\$ 63,105,543(b)</u> |
| Direct Debt Ratio | |
| : as a percentage of 2019 Assessed Valuation | 6.13% |
| Direct and Estimated Overlapping Debt Ratio | |
| : as a percentage of 2019 Assessed Valuation | 11.63% |
| Debt Service Fund Balance Estimated Upon Delivery of the Bonds | \$ 2,553,524(c) |
| General Fund Balance at March 18, 2020 | \$ 3,380,571 |
| 2019 Tax Rate per \$100 of Assessed Valuation | |
| Debt Service Tax | \$0.41 |
| Maintenance Tax | <u>0.27</u> |
| Total | \$0.68(d) |
| Average Percentage of Total Tax Collections (2009-2018) | 99.83% |
| As of March 30, 2020. | |
| Percentage of Total Tax Collections 2019 Levy | |
| As of March 30, 2020. In process of collection. | 96.66% |
| Average Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2020-2034) | \$ 2,199,997 |
| Maximum Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2034) | \$ 2,286,744 |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2020-2034) at 95% Tax Collections | |
| Based Upon 2019 Assessed Valuation (\$543,044,750) | \$0.43 |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2034) at 95% Tax Collections | |
| Based Upon 2019 Assessed Valuation (\$543,044,750) | \$0.45 |

| | |
|---|-------|
| Number of Single-Family Homes (Including 39 homes under construction as of February 1, 2020) | 2,043 |
|---|-------|

Completed

Approximately 365,530 Square Feet of Commercial, Office, Storage and Retail Establishments

228-Unit Waterford Place at Riata Ranch Apartments

-
- (a) As of January 1, 2019, and comprises the District's 2019 tax roll. All property in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."
 - (b) See "DISTRICT DEBT." In addition to the components of the District's System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."
 - (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the District's Debt Service Fund. Such fund balance reflects the payment by the District of its debt service payments due on March 1, 2020, and the contribution by the District of \$27,000 to the refunding of the Refunded Bonds. The District's remaining debt service payments for 2020, which are due on September 1, 2020, consist of \$1,661,047 of principal of and interest on the Remaining Outstanding Bonds and a \$205,000 principal payment and three-month interest payment on the Bonds.
 - (d) The District has levied a total tax of \$0.68 per \$100 of Assessed Valuation for 2019, consisting of a debt service tax in the amount of \$0.41 per \$100 of Assessed Valuation along with a maintenance tax of \$0.27 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2019 tax levies of units of government which levy taxes against the property located within the District plus the District's 2019 levy is \$2.8343 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District.

\$18,435,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

INTRODUCTION

This Official Statement of Harris County Municipal Utility District No. 196 (the “District”) is provided to furnish information with respect to the sale by the District of its \$18,435,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”). The Bonds are issued pursuant to the Texas Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, Chapters 49 and 54, Texas Water Code, as amended, Article XVI, Section 59 of the Texas Constitution, City of Houston Ordinance No. 97-416 and pursuant to an order (the “Bond Order”) adopted by the Board of Directors of the District.

There follow in this Official Statement descriptions of the Bonds, the use of proceeds of the Bonds, the Bond Order and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Harris County, Texas, the City of Houston, or any political subdivision other than the District, will be secured by an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial proportion of the assessed valuation of the property located within the District is attributable to the current market value of (i) single-family residences that have been constructed within the District, (ii) the single-family residential lots that have been developed for sale to home building companies for the construction of primary residences, and (iii) apartments and commercial buildings that have been constructed within the District. 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 and the construction of apartments and commercial buildings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots, homes, apartments and commercial enterprises 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. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the values of existing homes. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the captions “DEVELOPMENT AND HOME CONSTRUCTION,” “THE DEVELOPER” and

“BUILDER” (i) the District currently contains a total of 2,043 fully developed single-family residential lots, (ii) as of February 1, 2020, the District contained 2,043 single-family homes (including 39 homes under construction), (iii) the Builder (hereinafter defined) is currently constructing homes within the District as is described under such captions, (iv) commercial above-ground improvements including a total of approximately 365,530 square feet of commercial, office, storage and retail establishments have been constructed within the District; and (v) the 228-unit Waterford Place at Riata Ranch Apartments have been constructed within the District; the District cannot predict the pace or magnitude of any future development or future construction of homes, commercial buildings or apartments that might be undertaken in the District other than that which has occurred to date.

National Economy: There has been a downturn in new housing construction in the United States, resulting in a decline in national housing market values. Although, as is stated above under “Economic Factors,” and as described in this Official Statement under the captions “DEVELOPMENT AND HOME CONSTRUCTION,” “THE DEVELOPER” and “BUILDER”, (i) the District currently contains a total of 2,043 fully developed single-family residential lots, (ii) as of February 1, 2020, the District contained 2,043 single-family homes (including 39 homes under construction), (iii) the Builder (hereinafter defined) is currently constructing homes within the District as is described under such captions, (iv) commercial above-ground improvements including a total of approximately 365,530 square feet of commercial, office, storage and retail establishments have been constructed within the District; and (v) the 228-unit Waterford Place at Riata Ranch Apartments have been constructed within the District; the District cannot predict the pace or magnitude of any future development or future construction of homes, commercial buildings or apartments that might be undertaken in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing market and a continued downturn in the national housing and financial markets may have on the Houston market generally and the District specifically, or the maintenance of assessed values in the District.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on development and homebuilding activity and the construction of apartments and commercial buildings, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which homebuilders are able to finance the construction of new homes for sale and at which the construction of apartments and commercial buildings might be undertaken. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District, of homebuilders to initiate the construction of new homes for sale or the construction of future apartments and commercial buildings. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or home construction or construction of future apartments and commercial buildings within the District. In addition, since the District is located approximately 23 miles northwest of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect development and homebuilding plans or construction of future apartments and commercial buildings in the District and restrain the growth of the District’s property tax base.

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Assessed Valuation of property located within the District (see “TAX DATA”) is \$543,044,750. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds (hereinafter defined) will be \$2,286,744 (2034) and the Average Annual Debt Service Requirements will be \$2,199,997 (2020 through 2034, inclusive). Assuming no increase to nor decrease from the 2019 Assessed Valuation, the issuance of no bonds by the District in addition to the Prior Bonds (hereinafter defined), no use of District funds on hand other than tax receipts, tax rates of \$0.45 and \$0.43 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively, on the Bonds and the Remaining Outstanding Bonds.

The District has levied a debt service tax of \$0.41 per \$100 of Assessed Valuation and a maintenance tax of \$0.27 per \$100 of Assessed Valuation for 2019. As is illustrated in the immediately preceding paragraph, a debt service tax of \$0.41 is not sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds, assuming the 2019 Assessed Valuation, a tax collection rate of 95%, the issuance of no bonds by the District in addition to the Bonds and the Prior Bonds, and no use of District funds on hand other than tax receipts. However, as is illustrated in this Official Statement under the caption "TAX DATA - Historical Values and Tax Collection History," the District has collected an average of 99.83% of its tax levies for the period 2009 through 2018, and its 2019 tax levy is 96.66% collected, as of March 30, 2020. Moreover, the District's Debt Service Fund balance is estimated to be \$2,553,524 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds. See "APPENDIX B - ANNUAL FINANCIAL REPORT." Therefore, the District anticipates that it will be able to meet the debt service requirements on the Bonds and the Remaining Outstanding Bonds without increasing the debt service tax rate above the debt service tax rate which the District levied for 2019 - \$0.41 per \$100 of Assessed Valuation. See "THE BONDS - Source of Payment," "TAX DATA - Tax Rate Calculations," and "TAXING PROCEDURES." However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX DATA - Tax Rate Calculations." In addition to the components of the District's System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See "Future Debt" below and "THE SYSTEM."

As described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2019 tax levies of all units of government which levy taxes against the property located within the District plus the District's total 2019 levy of \$0.68 per \$100 of Assessed Valuation is \$2.8343 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected.

Increases in the District's tax rate to substantially higher levels than the rate of \$0.68 per \$100 of Assessed Valuation which the District levied in 2019 may have an adverse impact upon future development of the District, the sale and construction of homes within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. In addition, the collection by the District of delinquent taxes owed to it and the enforcement by a Registered Owner of the District's obligations to collect sufficient taxes may be a costly and lengthy process.

One must consider the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District, and the tax rates levied by other overlapping jurisdictions, are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District's tax rate, will be competitive with the tax rates of competing projects. See "TAX DATA - Estimated Overlapping Taxes," "TAXING PROCEDURES," and "THE BONDS - Registered Owners' Remedies."

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property

or (d) the taxpayer's right to redeem the property within two years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding.

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a 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 in order to pay the principal of and interest on the Bonds. 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 enforceability of the rights and remedies of the Registered Owners may be further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Registered Owners' Remedies."

The District may not be placed into bankruptcy involuntarily.

The Effect of the Financial Institutions Act of 1989 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.

There has been no definitive determination of the validity of these provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent the FIRREA provisions are valid and applicable to any property in the District, and 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.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

The District reserved in the Bond Order the right to issue the remaining \$4,231,795.50 authorized waterworks and sewer system unlimited tax bonds, \$500,000 unlimited tax bonds for acquisition or construction of recreational facilities, and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above for waterworks, wastewater and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such bonds for waterworks, wastewater and drainage facilities is also subject to TCEQ authorization.

The District's Engineer estimates that the aforementioned \$4,231,795.50 authorized unlimited tax bonds and \$500,000 unlimited tax bonds which remain unissued will be adequate to finance the construction of all water, wastewater and drainage facilities and recreational facilities to provide service to all of the currently undeveloped portions of the District based on the current development plan for the remaining undeveloped property within the District. The District has called an election to be held on November 3, 2020, to authorize the issuance of \$40,000,000 unlimited tax bonds for acquisition or construction of components of the System. The District cannot represent that the issuance of such bonds will be authorized by the voters. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds and the Outstanding Bonds. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt" and "Use and Distribution of Bond Proceeds," and "THE SYSTEM."

Competitive Nature of Houston Single-Family and Multi-Family Residential Housing and Commercial/Retail Development and Construction Markets

The single-family and multi-family residential housing and commercial/retail development industries in the Houston area are very competitive, and the District can give no assurance that any homebuilding programs or any multi-family residential projects will be initiated in the District in addition to the homebuilding programs and multi-family residential projects that have been undertaken in the District to date, or that any commercial/retail development or construction of future above-ground commercial/retail improvements will be undertaken in the District in addition to the commercial/retail development projects and construction of above-ground commercial/retail improvements that have been undertaken in the District to date as are described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION." The respective competitive positions of any home builder(s) which might attempt future homebuilding programs in the District in the sale of developed lots or in the construction and sale of single-family residential units and of any multi-family residential or commercial/retail developer which might undertake future multi-family residential or commercial/retail development projects or the construction of new apartments or above-ground commercial/retail improvements are affected by most of the factors discussed above, and such multi-family residential and/or commercial/retail development projects and the construction of single-family residential units, multi-family residential projects and/or commercial/retail above-ground improvements are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

Air Quality Issues

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

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

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

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

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

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

Water Supply & Discharge Issues

Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

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

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

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal itself has become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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.

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

Changes in Tax Legislation

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

Tropical Weather Events

The Houston area, including the District, is subject to occasional severe tropical weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500 year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. However, according to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service from Hurricane Harvey. Further, according to District officials, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes within the District other than approximately 600 homes (approximately 29% of the total of 2,043 homes that are located within the District), that are located within the District that experienced structural flooding. The District believes that the foregoing homes have been repaired.

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

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

See “THE SYSTEM - 100-Year Flood Plain.”

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 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 an Executive Order on April 27, 2020, which, among other things, permits the opening of only certain previously closed businesses (including retail establishments, dine-in restaurants, movie theaters, shopping malls, museums and libraries) but limits such businesses to 25% of their total listed occupancy, which may be otherwise extended, modified, rescinded, or superseded by the Governor. 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 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.

These negative impacts may reduce or negatively affect property values or homebuilding activity within the District. See “DEVELOPMENT OF THE DISTRICT” and “FUTURE DEVELOPMENT.” 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. See “SELECTED FINANCIAL INFORMATION” and “DISTRICT DEBT” for the District’s current fund balances.

THE BONDS

General

The \$18,435,000 Harris County Municipal Utility District No. 196 Unlimited Tax Bonds, Series 2020, are dated, and bear interest, at the rates shown on the inside cover hereof, from June 1, 2020, with interest payable on September 1, 2020 (three-month interest payment), and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued as serial bonds maturing on September 1 in each of the years 2020 through 2034, inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds are issued in fully registered form only, transferrable only upon presentation to the Registrar. The Bonds are issued in the denomination 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 (hereinafter defined) directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described below under “Book-Entry-Only System.”

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of 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 name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 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.

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or 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 securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and, (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Record Date

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

Paying Agent/Registrar

The Board has selected The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent,” “Registrar” or “Paying Agent/Registrar”) as the initial paying agent and registrar for the Bonds. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$25,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Assignments, Transfers and Exchanges

In the event the book-entry-only system is discontinued, the Bonds may be transferred, registered and assigned only on the registration books kept by the Registrar, and such registration and transfer shall be without expense or service charge to the owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of delivery of the Bonds to the Initial Purchaser, any Bond may be transferred or exchanged upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner not more than three business days after the receipt of the request in proper form to transfer, exchange or replace the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date.

Redemption Provisions

The Bonds maturing on and after September 1, 2026, are subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register.

If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds shall be selected on behalf of the District by such method of random selection as is determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond (including DTC while the Bonds are in book-entry-only form), all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Replacement of Bonds

The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds at the principal payment office of the Registrar, currently in Dallas, Texas, or receipt of satisfactory evidence by the Registrar and the District of such destruction, loss or theft, and receipt by the District and the Registrar of security or indemnity to hold them harmless. The District and the Registrar may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Source of Payment

The Outstanding Bonds (hereinafter defined) and the Bonds, when issued, will constitute valid and binding obligations of the District, and the principal thereof and interest thereon, together with the principal of and interest on such additional tax bonds of the District, if any, as hereafter may be issued, are payable from and are secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of levy and collection, and Paying Agent/Registrar and Harris County Appraisal District fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Outstanding Bonds, the Bonds and on such additional bonds payable from taxes which may be issued. See "TAX DATA."

Authority for Issuance

At elections held within the District on April 19, 1997 and February 5, 2000, the District's voters authorized the issuance of a total of \$49,000,000 unlimited tax bonds for financing District water, sewer and drainage facilities or for refunding outstanding bonds. At an election held within the District on May 12, 2007, the District's voters authorized the issuance of a total of \$3,000,000 unlimited tax bonds for financing parks and recreational facilities.

The Bonds are issued pursuant to the Bond Order; to Chapters 49 and 54 of the Texas Water Code, as amended; Article XVI, Section 59 of the Texas Constitution, and Chapter 1207, Texas Government Code, as amended.

Issuance of Additional Debt

The District may issue additional bonds with the approval of the Texas Commission on Environmental Quality (the "TCEQ"), necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$49,000,000 unlimited tax bonds for acquisition or construction of water supply and distribution, wastewater collection and treatment and storm drainage facilities (the "System") to serve the District, or for refunding outstanding bonds, and could authorize additional amounts. Following the issuance of the Bonds, \$4,231,795.50 unlimited tax and revenue bonds for acquisition or construction of the System will remain authorized but unissued from such authorization. The District's voters also have authorized \$3,000,000 in unlimited tax bonds for acquisition or construction of recreational facilities. \$500,000 unlimited tax bonds for acquisition or construction of recreational facilities remain authorized but unissued from the such authorization. The District has called an election to be held on November 3, 2020, to authorize the issuance of \$40,000,000 unlimited tax bonds for acquisition or construction of components of the System. The District cannot represent that the issuance of such bonds will be authorized by the voters.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the TCEQ). Any additional bonds issued by the District may be on a parity with the Bonds. Additional unlimited tax bonds may be required in the future to finance the repair or upgrading of water, sanitary sewer and drainage facilities and services within the District's boundaries. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance," and - "Use and Distribution of Bond Proceeds," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

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

The District is authorized by statute to develop recreational facilities, including the issuing of bonds payable from taxes for such purpose, and voters of the District approved the issuance of \$3,000,000 unlimited tax bonds for recreational facilities at an election held on May 12, 2007. The outstanding principal amount of unlimited tax bonds for recreational facilities may not exceed an amount equal to one percent of the value of the taxable property in the District. The District issued its \$2,500,000 Unlimited Tax Bonds, Series 2009 to finance recreational facilities.

The District expressly reserves the right to issue in one or more installments the following: (1) bonds payable solely from net revenues of the District's water and sewer system for the purpose of completing, repairing, improving, extending, enlarging or replacing such system, and such bonds may be payable from and equally secured by a lien on and pledge of said net revenues on a parity with the pledge on any previously issued bonds secured by net revenues to the extent net revenues are used to pay the principal of and interest on such bonds; (2) inferior lien bonds and to pledge the net revenues of such system to the payment thereof, such pledge to be subordinate in all respects to the lien of previously issued revenue bonds and any previously issued or subsequently issued bonds which are on a parity with the Bonds; and (3) special project bonds for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities, such special project bonds to be payable from and secured by the proceeds of such contract or contracts.

If additional bonds are issued in the future and property values have not increased proportionally, such issuance may increase gross debt/property value ratios and thereby adversely affect the investment quality or security of the Bonds and the Outstanding Bonds. See "INVESTMENT CONSIDERATIONS - Future Debt."

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the defeasance securities. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Annexation and Consolidation

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

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

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of the District's assets (such as cash and the System) and liabilities (such as the Bonds and the Remaining Outstanding Bonds) into the assets and liabilities of the district or districts with which it is consolidating; however, the District has no current plans to exercise its right of consolidation. No representation is made concerning the ability of any consolidated district to make debt service payments on the Bonds and other outstanding obligations of such consolidated district should consolidation occur.

Strategic Partnership Agreement

The District has entered into a Strategic Partnership Agreement ("SPA") with the City of Houston (the "City") whereby the tracts of land containing commercial development that are located within the District were annexed into the City. The City imposes a Sales and Use Tax within the annexed tracts on the receipts from the sales and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by the City from time to time. Under the SPA, one-half or 50% of the sales tax revenue generated by the commercial business will be paid to the District, and the District can use the sales tax for purposes for which the District is lawfully authorized to use its ad valorem tax revenues or other revenues. Amounts received by the District under the SPA are not pledged to the payment of the Bonds.

Neither the District nor any owners of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District until such time, if ever, as it annexes the District for full purposes pursuant to the provisions of the SPA.

In consideration of the services provided by the City, in lieu of full purpose annexation, the District is required to pay the City an annual fee of \$100 on each anniversary of the date the SPA was approved by the City Council of the City, December 20, 2007. Under the SPA the City agrees that it will not annex all or part of the District for a period of thirty years.

The Bonds are not obligations of the City and the SPA does not obligate the City, either directly or indirectly, to pay the principal of or interest on the Bonds.

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 the public funds of cities, towns, villages, 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 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, and such political subdivisions may impose other, more stringent, requirements in order for the Bonds to be legal investments for 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 suitability of the Bonds for any of the above purposes or limit the authority or any of the above persons or entities to purchase or invest in the Bonds.

Amendments

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

Registered Owners' Remedies

The Bond Order contains a covenant that while any of the Bonds is outstanding, there shall be assessed, levied, and collected an annual ad valorem tax, without limit as to rate or amount, on all taxable property within the District, sufficient to pay principal of and interest on the Bonds when due and to pay the expenses necessary in collecting taxes. Pursuant to Texas law, the Bond Order provides that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, or fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board of Directors of the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to all other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy and collect adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District

default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year by the Registered Owners. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell taxable property within the District in order to pay the principal of or interest on the Bonds. Certain traditional legal remedies also may not be available.

Certain traditional legal remedies also may not be available. The enforceability of the rights and remedies of the Registered Owners may be further 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. See "Bankruptcy Limitation to Registered Owners' Rights" below.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §§ 901-946, if the District (1) is generally authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ prior to filing for bankruptcy protection. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code, (2) all payments to be made in connection with the plan are fully disclosed and reasonable, (3) the District is not prohibited by law from taking any action necessary to carry out the plan, (4) administrative expenses are paid in full, and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, 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 such Registered Owners' claim against the District. See "INVESTMENT CONSIDERATIONS."

The District may not be placed into bankruptcy involuntarily.

PLAN OF FINANCING

Use of Bond Proceeds

Proceeds of the sale of the Bonds, plus certain funds of the District that are lawfully available for such purpose, will be applied to refund \$4,360,000 of the District’s Unlimited Tax Refunding Bonds, Series 2010, \$9,285,000 of the District’s Unlimited Tax Refunding Bonds, Series 2012 and \$3,975,000 of the District’s Unlimited Tax Refunding Bonds, Series 2013 (collectively, the “Refunded Bonds”). The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Bonds are being issued to reduce the District’s debt service payments, and result in present value savings. See “DISTRICT DEBT - Debt Service Requirement Schedule.”

Refunded Bonds

The principal amounts and maturity dates (or mandatory sinking fund redemption dates, if applicable) of the Refunded Bonds are set forth below.

Refunded Series Principal Amount

| <u>Maturity Date</u> <u>September 1</u> | <u>2010 Refunding Bonds</u> | <u>2012 Refunding Bonds</u> | <u>2013 Refunding Bonds</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| 2022 | \$ 30,000 | | \$ 970,000 |
| 2023 | 30,000 | \$ 55,000 | 1,010,000 |
| 2024 | 35,000 | 60,000 | 980,000 |
| 2025 | 35,000 | 60,000 | 1,015,000 |
| 2026 | 985,000 | 65,000 | |
| 2027 | 1,035,000 | 65,000 | |
| 2028 | 1,080,000 | 335,000 | |
| 2029 | 1,130,000 | 345,000 | |
| 2030 | | 1,550,000 | |
| 2031 | | 1,600,000 | |
| 2032 | | 1,655,000 | |
| 2033 | | 1,715,000 | |
| 2034 | | <u>1,780,000</u> | |
| | <u>\$4,360,000</u> | <u>\$9,285,000</u> | <u>\$3,975,000</u> |
| Redemption Date: | 9/1/2020 | 6/24/2020 | 9/1/2020 |
| Aggregate Principal Amount of Refunded Bonds | | | \$17,620,000 |

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their respective redemption dates from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the “Escrow Agent”).

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other legally available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.” Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and used to purchase United States Treasury Obligations (the “Escrowed Securities”), the proceeds of which will be used to redeem the Refunded Bonds on their redemption date. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Defeasance of the Refunded Bonds

By the deposit of certain proceeds of the Bonds, the Escrowed Securities, and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, and in reliance upon the Verification Report of Robert Thomas, CPA, LLC, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

The Non-Refunded Bonds (Remaining Outstanding Bonds)

The Bonds are the twelfth issue of bonds of the District for acquisition and construction of the System (defined below) or parks and recreational facilities or refunding of outstanding bonds. The District has previously issued Unlimited Tax Bonds, Series 1998 (the "Series 1998 Bonds"); Unlimited Tax Bonds, Series 2000 (the "Series 2000 Bonds"); Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"); Unlimited Tax Bonds, Series 2006 (the "Series 2006 Bonds"), Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds") and Unlimited Tax Bonds, Series 2018 (the "Series 2018 Bonds") to finance components of the System; Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds") to finance the acquisition or construction of recreational facilities to serve the District; and Unlimited Tax Refunding Bonds, Series 2006 (the "Series 2006 Refunding Bonds"); Unlimited Tax Refunding Bonds, Series 2010 (the "Series 2010 Refunding Bonds"); Unlimited Tax Refunding Bonds, Series 2012 (the "Series 2012 Refunding Bonds") and Unlimited Tax Refunding Bonds, Series 2013 (the "Series 2013 Refunding Bonds") to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all of such debt obligations heretofore issued by the District as the "Prior Bonds." The District has timely paid all payments of principal of and interest on the Prior Bonds when due. Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is \$32,465,000 (collectively, the "Outstanding Bonds"). After issuance of the Bonds, the aggregate principal amount of the District's outstanding bonded indebtedness, consisting of the maturities of the Prior Bonds not heretofore paid by the District, and less the Refunded Bonds, will be \$14,845,000 (collectively, the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be \$33,280,000. See "DISTRICT DEBT - Debt Service Requirement Schedule." The District has never defaulted in the timely payment of principal of or interest on the Prior Bonds.

The principal amounts and maturity dates (or mandatory sinking fund redemption dates, if applicable) of the Remaining Outstanding Bonds as of the date of the issuance of the Bonds are as follows.

| <u>Non-Refunded Principal Amount</u> | | | | | |
|--|--|--|--|------------------------------------|------------------------------------|
| <u>Maturity Date</u> <u>September 1</u> | <u>Series 2010</u> <u>Refunding Bonds</u> | <u>Series 2012</u> <u>Refunding Bonds</u> | <u>Series 2013</u> <u>Refunding Bonds</u> | <u>Series 2016</u> <u>Bonds</u> | <u>Series 2018</u> <u>Bonds</u> |
| 2020 | \$30,000 | \$55,000 | \$910,000 | \$50,000 | |
| 2021 | 30,000 | 55,000 | 945,000 | 50,000 | |
| 2022 | | 55,000 | | 50,000 | |
| 2023 | | | | 50,000 | |
| 2024 | | | | 50,000 | |
| 2025 | | | | 50,000 | |
| 2026 | | | | 50,000 | |
| 2027 | | | | 50,000 | |
| 2028 | | | | 50,000 | |
| 2029 | | | | 50,000 | |
| 2030 | | | | 50,000 | |
| 2031 | | | | 50,000 | |
| 2032 | | | | 50,000 | |
| 2033 | | | | 50,000 | |
| 2034 | | | | 50,000 | |
| 2035 | | | | 1,150,000 | |
| 2036 | | | | 1,225,000 | |
| 2037 | | | | 1,275,000 | |
| 2038 | | | | 1,350,000 | |
| 2039 | | | | 1,400,000 | |
| 2040 | | | | 1,475,000 | |
| 2041 | | | | | \$1,325,000 |
| 2042 | | | | | 1,380,000 |
| 2043 | | | | | <u>1,435,000</u> |
| | <u>\$60,000</u> | <u>\$165,000</u> | <u>\$1,855,000</u> | <u>\$8,625,000</u> | <u>\$4,140,000</u> |
| Total Principal Amount of Non-Refunded Bonds (Remaining Outstanding Bonds) | | | | | \$14,845,000 |

Sources and Uses of Funds

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

SOURCES OF FUNDS:

| | |
|--|------------------|
| Principal Amount of Bonds | \$18,435,000.00 |
| Plus: Net Original Issue Premium | 148,202.40 |
| District Contribution | 27,000.00 |
| Accrued Interest | <u>30,060.56</u> |
| Total Sources of Funds | \$18,640,262.96 |

USES OF FUNDS:

| | |
|--|-------------------|
| Deposit to Escrow Fund | \$17,886,740.99 |
| Deposit Accrued Interest to Debt Service Fund | 30,060.56 |
| Expenses: | |
| Underwriter Discount | 131,810.25 |
| Municipal Bond Insurance Premium and Other Issuance Expenses | <u>591,651.16</u> |
| Total Uses of Funds | \$18,640,262.96 |

THE DISTRICT

Authority

Harris County Municipal Utility District No. 196 was created by the Texas Water Commission, now the Texas Commission on Environmental Quality (the "TCEQ"), on December 15, 1981, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 703.5857 acres of land.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water.

Under certain limited circumstances the District also is authorized to construct, develop and maintain park and recreational facilities and to construct roads. In addition, the District is authorized to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent of the City of Houston, within whose extraterritorial jurisdiction the District lies, the District has agreed to observe certain City of Houston requirements. These requirements limit the purposes for which the District may sell bonds to the acquisition and improvement of waterworks, wastewater, and drainage facilities; limit the net effective interest rate on such bonds and other terms of such bonds; and require approval by the City of Houston of the District's construction plans and specifications.

Description

The District is located entirely within Harris County, Texas, approximately 23 miles northwest of the central business district of the City of Houston, Texas. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the Cypress-Fairbanks Independent School District. The District is located approximately 2 miles south of the intersection of U.S. Highway 290 and Barker-Cypress Road. Barker-Cypress Road transverses the District. See "AERIAL PHOTOGRAPH OF THE DISTRICT," and "APPENDIX A - LOCATION MAP."

Management of the District

The District is governed by the Board of Directors (the “Board”), consisting of five directors, who have control over and management supervision of all affairs of the District. Three of the directors reside in the District, and the other two directors each own separate small parcels of land located in the District. The directors serve four-year staggered terms. Elections are held in even numbered years in May. The current members and officers of the Board, along with their occupations, are listed below:

| <u>Name</u> | <u>Title</u> | <u>Terms Expires in May</u> |
|---------------------|----------------|-----------------------------|
| Roy R. Behrens, Jr. | President | 2024 |
| Mark E. Wyckoff | Vice President | 2024 |
| Parke B. Patterson | Secretary | 2022 |
| Jason Johnson | Director | 2024 |
| Paul H. May, Jr. | Director | 2022 |

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, financial advisory and legal services as follows:

Tax Assessor/Collector

The District has engaged Utility Tax Service, LLC as the District's Tax Assessor/Collector. According to Utility Tax Service, LLC, its employees presently serve 100 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

Bookkeeper

The District's bookkeeper is Myrtle Cruz, Inc. Such firm acts as bookkeeper for approximately 372 utility districts.

Utility System Operator

The District's operator is Water District Management Company Inc. According to Water District Management Company Inc., it acts as operator for approximately 28 utility districts.

Auditor

As required by the Texas Water Code, the District has retained McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, to audit the District's financial statements annually. A copy of the District's audit for the fiscal year ended April 30, 2019, is included as “APPENDIX B” to this Official Statement.

Engineer

The consulting engineer for the District is Koehn & Associates Engineers, Inc. (the “Engineer”), Houston, Texas. The Engineer has also been employed by the Developers in connection with certain planning activities and the design of certain streets and related improvements within the District.

Attorney

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas as general counsel to the District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. See “LEGAL MATTERS.”

Financial Advisor

The District has engaged Rathmann & Associates, L.P., as financial advisor (the “Financial Advisor”) to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P., is an independent municipal advisor registered with the United States Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”). Rathmann & Associates, L.P.’s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.’s SEC registration Forms MA and MA-1’s, which constitute Rathmann & Associates, L.P.’s registration filings, may be accessed through http://www.sec.gov/edgar/searchedgar/company_search.html.

DEVELOPMENT OF THE DISTRICT

Land within the District is being developed primarily for single-family residential usage. As of February 1, 2020, the District contained a total of 2,043 single-family residences, including 39 residences under construction. See “BUILDER” below. In addition, a total of approximately 365,530 square feet of commercial, office, storage and retail establishments and 228 apartment units have been constructed within the District as is described below.

The development of 2,043 single-family residential lots (633.5 total acres) is complete in Riata Ranch, Sections 1 through 11, Riata West, Barker Lake, Sections 1 and 2 and Alder Trails, Sections 1 through 13. All of such lots have been provided water supply and distribution, wastewater collection and treatment and storm drainage facilities (the “System”) and street paving. Approximately 62.8 of such 633.5 acres are located in drainage rights-of-way, District plant sites or are otherwise not available for future development, and approximately 22.0 of such 633.5 acres have been developed as 4 recreational reserves, on which clubhouses, pools, and tennis courts have been constructed.

The 228-unit Waterford Place at Riata Ranch Apartments have been constructed on an approximately 11.8 acre tract within the District. The Cypress-Fairbanks Independent School District Elementary School #54 has been constructed on an approximately 14.8 acre tract within the District. Approximately 365,530 square feet of commercial, office, storage and retail establishments have been constructed on approximately 34.75 acres of land located within the District. Approximately 9.0 acres located within the District are served by trunk water, sewer and drainage facilities and are available for construction of above-ground improvements.

Taylor Morrison of Texas, Inc. is currently constructing homes in Alder Trails as is described below under the caption “BUILDER.”

The District financed the cost of acquiring and constructing components of the System to serve Riata Ranch, Sections 1 through 11, Riata West, Barker Lake, Sections 1 and 2, Alder Trails, Sections 1 through 13, Saddle Springs Lane, the Walgreens Commercial Tract, Barker Commons, Phase 1, Segments A through F, Barker Commons, Phase II, Segments A through C, Barker Cypress Service Station, and Market at Alder Trails; water plant improvements; wastewater treatment plant improvements; Riata Ranch Park; Barker Lake Park; Riata West Park; Alder Trails detention and lift station; Queenston Boulevard; and other facilities with the proceeds of the sale of the Prior Bonds. In addition to the components of the District’s System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See “THE BONDS - Authority for Issuance,” - “Issuance of Additional Debt,” and - “Use and Distribution of Bond Proceeds,” “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

Lot Development and Home Construction

The following table reflects the status of the residential development and home construction within the District as of February 1, 2020:

| Subdivision | Lots | | | | Homes | | | | Totals |
|--------------------------------|-----------|------------|-------------|-------|-----------|----------|-----------|----------|-----------|
| | Fully | Acres | Under | Acres | Under | | Completed | | |
| | Developed | | Development | | Sold | Unsold | Sold | Unsold | |
| Riata Ranch | | | | | | | | | |
| Section 1 | 99 | 24.6 | | | 0 | 0 | 99 | 0 | 99 |
| Section 2 | 78 | 41.9 | | | 0 | 0 | 78 | 0 | 78 |
| Section 3 | 100 | 28.2 | | | 0 | 0 | 100 | 0 | 100 |
| Section 4 | 126 | 30.2 | | | 0 | 0 | 126 | 0 | 126 |
| Section 5 | 135 | 48.0 | | | 0 | 0 | 135 | 0 | 135 |
| Section 6 | 58 | 32.1 | | | 0 | 0 | 58 | 0 | 58 |
| Section 7 | 87 | 34.2 | | | 0 | 0 | 87 | 0 | 87 |
| Section 8 | 83 | 18.5 | | | 0 | 0 | 83 | 0 | 83 |
| Section 9 | 67 | 19.5 | | | 0 | 0 | 67 | 0 | 67 |
| Section 10 | 93 | 24.2 | | | 0 | 0 | 93 | 0 | 93 |
| Section 11 | 102 | 36.9 | | | 0 | 0 | 102 | 0 | 102 |
| Riata West | 295 | 62.8 | | | 0 | 0 | 295 | 0 | 295 |
| Barker Lake | | | | | | | | | |
| Section 1 | 160 | 49.3 | | | 0 | 0 | 160 | 0 | 160 |
| Section 2 | 145 | 42.3 | | | 0 | 0 | 145 | 0 | 145 |
| Alder Trails | | | | | | | | | |
| Collector Streets/ Drainage | 0 | 19.0 | | | 0 | 0 | 0 | 0 | 0 |
| Section 1 | 57 | 19.9 | | | 0 | 0 | 57 | 0 | 57 |
| Section 2 | 12 | 2.8 | | | 0 | 0 | 12 | 0 | 12 |
| Section 3 | 26 | 9.8 | | | 3 | 0 | 23 | 0 | 26 |
| Section 4 | 71 | 20.8 | | | 0 | 0 | 71 | 0 | 71 |
| Section 5 | 33 | 8.8 | | | 0 | 0 | 33 | 0 | 33 |
| Section 6 | 25 | 9.5 | | | 1 | 0 | 24 | 0 | 25 |
| Section 7 | 35 | 8.8 | | | 1 | 0 | 34 | 0 | 35 |
| Section 8 | 29 | 6.2 | | | 0 | 0 | 29 | 0 | 29 |
| Section 9 | 29 | 5.8 | | | 0 | 0 | 29 | 0 | 29 |
| Section 10 | 27 | 6.5 | | | 6 | 0 | 21 | 0 | 27 |
| Section 11 | 26 | 6.5 | | | 0 | 0 | 26 | 0 | 26 |
| Section 12 | 14 | 7.5 | | | 14 | 0 | 0 | 0 | 14 |
| Section 13 | <u>31</u> | <u>8.9</u> | | | <u>14</u> | <u>0</u> | <u>17</u> | <u>0</u> | <u>31</u> |
| TOTALS | 2,043 | 633.5* | 0 | 0 | 39 | 0 | 2,004 | 0 | 2,043 |

* Approximately 62.8 of such approximately 633.5 acres are located in drainage rights-of-way, District plant sites or are otherwise not available for future development, and approximately 22.0 of such acres are being utilized as recreation sites.

THE DEVELOPER

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent (30%) of the cost of emplacing certain of the water, wastewater and drainage facilities in the utility district pursuant to the rules of the TCEQ. The District requested an exemption from such developer participation requirement with respect to certain of the Prior Bonds on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the requests for such exemption in its Orders authorizing the District to issue certain of the Prior Bonds. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

The Developer

The developer of Alder Trails, Sections 1 through 13 is Taylor Morrison of Texas, Inc. ("TM"). TM is wholly-owned by Taylor Morrison Home Corporation, a Delaware corporation, which is a public corporation whose stock is listed on the New York Stock Exchange. TM has retained Johnson Development Services to develop Alder Trails on TM's behalf in consideration of the payment of a fee. TM owns no additional land located within the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "THE DEVELOPER." TM (the "Builder") is currently constructing homes in Alder Trails as described below under the caption "BUILDER."

BUILDER

TM (the "Builder") is currently constructing homes in Alder Trails. According to TM, homes that are being constructed in Alder Trails range in size from approximately 1,500 to 5,084 square feet of living area and in sales price from approximately \$200,000 to \$500,000.

FUTURE DEVELOPMENT

Approximately 633.5 acres of land located in the District available for development have been developed into a total of 2,043 single-family residential lots as is described above under the caption "DEVELOPMENT AND HOME CONSTRUCTION." Approximately 62.8 of such 633.5 acres consist of drainage rights of way, District plant sites, and other acreage not available for development, and approximately 22.0 of such 633.5 acres have been developed as 4 recreational reserves, on which clubhouses, pools, and tennis courts have been constructed. The 228-unit Waterford Place at Riata Ranch Apartments have been constructed on an approximately 11.8 acre tract within the District. The Cypress-Fairbanks Independent School District Elementary School #54 has been constructed on an approximately 14.8 acre tract within the District. Approximately 365,530 square feet of commercial, medical, office, storage, and retail establishments have been constructed on approximately 34.75 acres of land located within the District.

Approximately 9.0 acres located within the District are served by trunk water, sewer and drainage facilities, and are available for construction of above-ground improvements.

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken April 2020)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken April 2020)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken April 2020)



DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Remaining Outstanding Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the Refunded Bonds, will be \$14,845,000 (the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be \$33,280,000. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

| | |
|--|--|
| 2019 Assessed Valuation | \$543,044,750(a) (As of January 1, 2019) See "TAX DATA" and "TAXING PROCEDURES." |
| | |
| Direct Debt | |
| Remaining Outstanding Bonds | \$ 14,845,000 |
| The Bonds | <u>18,435,000</u> |
| Total | \$ 33,280,000(b) |
| | |
| Estimated Overlapping Debt | <u>\$ 29,825,543(b)</u> |
| | |
| Total Direct and Estimated Overlapping Debt | <u>\$ 63,105,543(b)</u> |
| | |
| Direct Debt Ratio | |
| : as a percentage of 2019 Assessed Valuation | 6.13% |
| | |
| Direct and Estimated Overlapping Debt Ratio | |
| : as a percentage of 2019 Assessed Valuation | 11.63% |
| | |
| Debt Service Fund Balance Estimated Upon Delivery of the Bonds | \$ 2,553,524(c) |
| | |
| General Fund Balance at March 18, 2020 | \$ 3,380,571 |
| | |
| 2019 Tax Rate per \$100 of Assessed Valuation | |
| Debt Service Tax | \$0.41 |
| Maintenance Tax | <u>0.27</u> |
| Total | \$0.68(d) |
| | |
| Average Percentage of Total Tax Collections (2009-2018) | 99.83% |
| As of March 30, 2020. | |
| | |
| Percentage of Total Tax Collections 2019 Levy | |
| As of March 30, 2020. In process of collection. | 96.66% |

(a) As of January 1, 2019, and comprises the District's 2019 tax roll. All property in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."

- (b) In addition to the components of the District's System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."
- (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the District's Debt Service Fund. Such fund balance reflects the payment by the District of its debt service payments due on March 1, 2020, and the contribution by the District of \$27,000 to the refunding of the Refunded Bonds. The District's remaining debt service payments for 2020, which are due on September 1, 2020, consist of \$1,661,047 of principal of and interest on the Remaining Outstanding Bonds and a \$205,000 principal payment and three-month interest payment on the Bonds.
- (d) The District has levied a total tax of \$0.68 per \$100 of Assessed Valuation for 2019, consisting of a debt service tax in the amount of \$0.41 per \$100 of Assessed Valuation along with a maintenance tax of \$0.27 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2019 tax levies of units of government which levy taxes against the property located within the District plus the District's 2019 levy is \$2.8343 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District.

Estimated Direct and Overlapping Debt Statement

The following table indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes. Except for the amount 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 bonds since the dates cited.

| | Debt as of <u>March 1, 2020</u> | <u>Overlapping(a)</u> | |
|--|--|------------------------------|----------------------|
| | | <u>Percent</u> | <u>Amount</u> |
| Harris County (a) | \$1,899,112,125 | 0.11219% | \$ 2,130,662 |
| Harris County Department of Education | 6,320,000 | 0.11219 | 7,091 |
| Harris County Flood Control District | 83,075,000 | 0.11219 | 93,204 |
| Harris County Hospital District | 57,300,000 | 0.11219 | 64,286 |
| Port of Houston Authority | 572,569,397 | 0.11219 | 642,380 |
| Cypress Fairbanks Independent School District | 2,586,595,000 | 0.98203 | 25,401,163 |
| Lone Star College District | 579,645,000 | 0.25649 | <u>1,486,757</u> |
| | | | |
| Total Estimated Overlapping Debt | | | \$29,825,543 |
| | | | |
| Total Direct Debt (the Bonds and the Remaining Outstanding Bonds) | | | <u>33,280,000</u> |
| | | | |
| Total Direct and Estimated Overlapping Debt | | | \$63,105,543 |

(a) Harris County Toll Road Bonds are considered to be self-supporting, and are not included in this schedule.

Debt Ratios

| | | |
|--|--|--------|
| Direct Debt | | |
| : as a percentage of 2019 Assessed Valuation | | 6.13% |
| | | |
| Direct and Estimated Overlapping Debt | | |
| : as a percentage of 2019 Assessed Valuation | | 11.63% |

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements of the Outstanding Bonds, less the debt service requirements of the Refunded Bonds, plus the principal and interest payments of the Bonds.

| <u>Year</u> | <u>Current Total Debt Service Requirements</u> | <u>Less: Debt Service on Refunded Bonds</u> | <u>Plus: - The Bonds -</u> | | <u>Total New Debt Service Requirements</u> |
|-------------|--|---|----------------------------|--------------------|--|
| | | | <u>Principal (Due 9/1)</u> | <u>Interest</u> | |
| 2020 | \$ 2,273,681 | \$ 326,269 | \$ 205,000 | \$ 122,975 | \$ 2,275,388 |
| 2021 | 2,277,031 | 652,538 | 85,000 | 483,700 | 2,193,194 |
| 2022 | 2,269,331 | 1,652,538 | 1,090,000 | 480,300 | 2,187,094 |
| 2023 | 2,266,181 | 1,707,538 | 1,190,000 | 436,700 | 2,185,344 |
| 2024 | 2,201,431 | 1,644,288 | 1,175,000 | 389,100 | 2,121,244 |
| 2025 | 2,191,881 | 1,636,738 | 1,215,000 | 342,100 | 2,112,244 |
| 2026 | 2,085,931 | 1,532,788 | 1,150,000 | 293,500 | 1,996,644 |
| 2027 | 2,091,188 | 1,540,044 | 1,185,000 | 259,000 | 1,995,144 |
| 2028 | 2,359,381 | 1,810,238 | 1,480,000 | 235,300 | 2,264,444 |
| 2029 | 2,360,781 | 1,813,450 | 1,510,000 | 205,700 | 2,263,031 |
| 2030 | 2,374,731 | 1,829,213 | 1,560,000 | 175,500 | 2,281,019 |
| 2031 | 2,372,544 | 1,828,838 | 1,590,000 | 144,300 | 2,278,006 |
| 2032 | 2,372,931 | 1,831,038 | 1,625,000 | 112,500 | 2,279,394 |
| 2033 | 2,375,263 | 1,835,181 | 1,665,000 | 75,938 | 2,281,019 |
| 2034 | 2,380,569 | 1,842,300 | 1,710,000 | 38,475 | 2,286,744 |
| 2035 | 1,636,456 | | | | 1,636,456 |
| 2036 | 1,668,331 | | | | 1,668,331 |
| 2037 | 1,669,331 | | | | 1,669,331 |
| 2038 | 1,693,331 | | | | 1,693,331 |
| 2039 | 1,687,644 | | | | 1,687,644 |
| 2040 | 1,704,894 | | | | 1,704,894 |
| 2041 | 1,494,050 | | | | 1,494,050 |
| 2042 | 1,494,394 | | | | 1,494,394 |
| 2043 | 1,494,194 | | | | 1,494,194 |
| | <u>\$48,795,480</u> | <u>\$22,482,999</u> | <u>\$18,435,000</u> | <u>\$3,795,088</u> | <u>\$47,542,578</u> |

Average Annual Requirements (2020-2034): \$ 2,199,997
 Maximum Annual Requirement (2034): \$ 2,286,744

See "TAX DATA - Tax Rate Calculations" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments - Maximum Impact on District Tax Rates" for a discussion of the District's projected tax rates and the effect of the Bonds thereon.

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds and any additional bonds payable from ad valorem taxes (see "TAXING PROCEDURES"). The Board of Directors of the District has in the Bond Order covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). The District levied a debt service tax of \$0.41 per \$100 of Assessed Valuation for 2019.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. On June 29, 1985, the District voters authorized the levy of such a maintenance tax in an amount not to exceed \$1.00 per \$100 of Assessed Valuation. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Remaining Outstanding Bonds, the Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.27 per \$100 of Assessed Valuation for 2019.

Tax Rate Limitation

| | |
|---------------|---|
| Debt Service: | Unlimited (no legal limit as to rate or amount) |
| Maintenance: | \$1.00 per \$100 of Assessed Valuation |

Historical Values and Tax Collection History

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

| <u>Tax Year</u> | <u>Assessed Valuation</u> | <u>Tax Rate(a)</u> | <u>Adjusted Levy</u> | <u>% Collections</u> | |
|-----------------|---------------------------|--------------------|----------------------|--------------------------------------|------------------------|
| | | | | <u>Current & Prior Years (b)</u> | <u>Year Ended 9/30</u> |
| 2008 | \$268,439,397 | \$0.70 | \$1,879,076 | 100.00% | 2009 |
| 2009 | 273,132,049 | 0.70 | 1,911,924 | 99.99 | 2010 |
| 2010 | 272,630,193 | 0.71 | 1,935,675 | 99.99 | 2011 |
| 2011 | 273,547,179 | 0.74 | 2,024,249 | 99.95 | 2012 |
| 2012 | 282,782,055 | 0.74 | 2,092,587 | 99.94 | 2013 |
| 2013 | 293,691,339 | 0.74 | 2,173,316 | 99.92 | 2014 |
| 2014 | 334,277,480 | 0.68 | 2,273,087 | 99.87 | 2015 |
| 2015 | 379,091,999 | 0.64 | 2,426,189 | 99.79 | 2016 |
| 2016 | 420,062,393 | 0.62 | 2,604,387 | 99.71 | 2017 |
| 2017 | 465,849,966 | 0.62 | 2,888,270 | 99.68 | 2018 |
| 2018 | 492,331,402 | 0.62 | 3,052,455 | 99.50 | 2019 |
| 2019 | 543,044,750 | 0.68 | 3,685,121 | 96.66(c) | 2020 |

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through March 30, 2020. This amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.

(c) As of March 30, 2020. In process of collection.

Tax Rate Distribution

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Debt Service | \$0.41 | \$0.44 | \$0.45 | \$0.45 | \$0.39 |
| Maintenance | <u>0.27</u> | <u>0.18</u> | <u>0.17</u> | <u>0.17</u> | <u>0.25</u> |
| Total | \$0.68 | \$0.62 | \$0.62 | \$0.62 | \$0.64 |

Analysis of Tax Base

The following table illustrates the composition of property located within the District for the past five years.

| <u>Type of Property</u> | 2019 | | 2018 | | 2017 | |
|-------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | <u>Assessed Value</u> | <u>%</u> | <u>Assessed Value</u> | <u>%</u> | <u>Assessed Value</u> | <u>%</u> |
| Land | \$ 106,417,822 | 19.60% | \$ 107,214,520 | 21.78% | \$ 99,269,321 | 21.31% |
| Improvements | 460,745,371 | 84.84 | 408,091,981 | 82.89 | 389,103,390 | 83.53 |
| Personal Property | 12,118,881 | 2.23 | 11,007,290 | 2.24 | 11,019,733 | 2.37 |
| Exemptions | <u>(36,237,324)</u> | <u>(6.67)</u> | <u>(33,982,389)</u> | <u>(6.90)</u> | <u>(33,542,478)</u> | <u>(7.20)</u> |
| Total | \$543,044,750 | 100.00% | \$492,331,402 | 100.00% | \$465,849,966 | 100.00% |

| <u>Type of Property</u> | 2016 | | 2015 | |
|-------------------------|-----------------------|---------------|-----------------------|---------------|
| | <u>Assessed Value</u> | <u>%</u> | <u>Assessed Value</u> | <u>%</u> |
| Land | \$ 94,790,899 | 22.57% | \$ 90,692,430 | 23.92% |
| Improvements | 351,289,930 | 83.63 | 291,389,860 | 76.87 |
| Personal Property | 7,019,020 | 1.67 | 7,848,113 | 2.07 |
| Exemptions | <u>(33,037,456)</u> | <u>(7.86)</u> | <u>(10,838,404)</u> | <u>(2.86)</u> |
| Total | \$420,062,393 | 100.00% | \$379,091,999 | 100.00% |

Principal 2019 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2019. The information reflects the composition of property ownership reflected on the District's 2019 tax roll.

| <u>Taxpayer</u> | <u>Type of Property</u> | <u>Assessed Valuation 2019 Tax Roll</u> | <u>% of 2019 Tax Roll</u> |
|----------------------------|-------------------------|---|-------------------------------|
| SIR Waterford Riata LLC | Land and Improvements | \$ 22,772,753 | 4.19% |
| MSC Barker Cypress LLC | Land and Improvements | 8,275,000 | 1.52 |
| Midway Alpha LLC | Land and Improvements | 5,935,441 | 1.09 |
| Happyone Investments LLC | Land and Improvements | 5,623,952 | 1.04 |
| Pin Oak REIF Cypress LLC | Land and Improvements | 4,126,790 | 0.76 |
| LIDL US Operations LLC | Land | 3,888,072 | 0.72 |
| Wal-Mart | Personal Property | 3,499,909 | 0.64 |
| Properteech Holdings LLC | Land and Improvements | 3,400,000 | 0.63 |
| ELD Holdings INC | Land and Improvements | 3,301,586 | 0.61 |
| DPF Land & Cattle Co. Ltd. | Land and Improvements | <u>3,140,259</u> | <u>0.58</u> |
| | | \$63,963,762 | 11.78% |

Exemptions

The District has not authorized a general residential homestead exemption, but it has adopted a \$15,000 residential homestead exemption for persons 65 years of age or older or disabled persons. See "TAXING PROCEDURES."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2019 Assessed Valuation. The calculations assume collection of 95% of taxes levied, no use of funds on hand, and the sale of no additional bonds by the District except the Bonds and the Prior Bonds.

| | |
|--|-------------|
| Average Annual Debt Service Requirements (2020-2034) | \$2,199,997 |
| Tax Rate of \$0.43 on the 2019 Assessed Valuation (\$543,044,750) produces | \$2,218,338 |
| Maximum Annual Debt Service Requirement (2034) | \$2,286,744 |
| Tax Rate of \$0.45 on the 2019 Assessed Valuation (\$543,044,750) produces | \$2,321,516 |

The District has levied a debt service tax of \$0.41 per \$100 of Assessed Valuation and a maintenance tax of \$0.27 per \$100 of Assessed Valuation for 2019. As is illustrated above, the District's 2019 debt service tax rate is not sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds, assuming the 2019 Assessed Valuation, a tax collection rate of 95%, the issuance of no bonds by the District in addition to the Bonds and the Prior Bonds, and no use of District funds on hand other than tax receipts. However, as is illustrated in this Official Statement under the caption "TAX DATA - Historical Values and Tax Collection History," the District has collected an average of 99.83% of its tax levies for the period 2009 through 2018, and its 2019 tax levy is 96.66% collected, as of March 30, 2020. Moreover, the District's Debt Service Fund balance is estimated to be \$2,553,524 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds. See "APPENDIX B - ANNUAL FINANCIAL REPORT." Therefore, the District expects to be able to pay debt service on the Outstanding Bonds and the Bonds without increasing its debt service tax above \$0.41 per \$100 of Assessed Valuation debt service tax that the District levied for 2019. See "THE BONDS - Source of Payment" and "TAXING PROCEDURES." However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with the proceeds of the sale of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance," and "Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2019 tax levies of all units of government which levy taxes against the property located within the District and the District's 2019 tax levy. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

| <u>Taxing Jurisdiction</u> | <u>2019 Tax Rate/\$100</u> |
|---|----------------------------|
| Harris County | \$0.40713 |
| Harris County Department of Education | 0.00500 |
| Harris County Flood Control District | 0.02792 |
| Harris County Hospital District | 0.16591 |
| Port of Houston Authority | 0.01074 |
| Cypress-Fairbanks Independent School District | 1.37000 |
| Lone Star College District | 0.10780 |
| Harris County Emergency Services District No. 9 | 0.05980 |
| The District* | <u>0.68000</u> |
| TOTAL TAX RATE | \$2.83430 |

* The District levied a total tax of \$0.68 per \$100 of Assessed Valuation for 2019, consisting of a debt service tax of \$0.41 per \$100 of Assessed Valuation and a maintenance tax of \$0.27 per \$100 of Assessed Valuation.

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, the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS - Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under “THE BONDS - Source of Payment.” Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. See “TAX DATA - Maintenance Tax” and - “Tax Rate Distribution.”

Property Tax Code and County-wide Appraisal District

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Harris County Appraisal District (“HCAD” or the “Appraisal District”) described below to assess taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; nonprofit cemeteries; and certain property owned by qualified charitable, religious, veterans, fraternal, or educational organizations. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65)

years or older and of certain disabled persons to the extent deemed advisable by the Board. In addition, the District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2019 tax year, the District has granted an exemption of \$20,000 of assessed valuation for persons 65 years of age and older and to individuals who are under disability for purpose of payment of disability insurance benefits under Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, and subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Katy ISD owns two tracts totalling approximately 36 acres which are exempt from taxation and will remain exempt from taxation unless sold to a tax-paying third party.

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

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

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston, Harris County, 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 (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. The terms of all tax abatement agreements must be substantially the same. The District has not entered into any tax abatements to date.

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.

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

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisals 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 to formally 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 values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

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 of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

Special Taxing Units

Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

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

Developing Districts

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

The District

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

Levy and Collection of Taxes

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units (see "TAX DATA - Estimated Overlapping Taxes"). A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the 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 (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - Tax Collection Limitations."

Tax Payment Installments after Disaster

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

Reappraisal of Property After Disaster

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

THE SYSTEM

According to the Engineer, the District's water distribution, wastewater collection and storm drainage facilities (collectively, the "System") have been designed in accordance with the criteria of various regulatory agencies including the City of Houston, Harris County, and the TCEQ. The construction and installation of the facilities must be made in accordance with the standards and specifications of such entities and are subject to inspection by each such entity. The total number of equivalent single-family connections ("ESFCs") currently projected for the District at the full development of its current area of approximately 703.5857 acres of land is 2,524 with a total estimated population of 10,480.

The District financed the District's cost of acquiring and constructing the water distribution, wastewater collection, and storm drainage facilities serving the single-family residential lots and commercial lots developed as Riata Ranch, Sections 1 through 11, Riata West, Barker Lake, Sections 1 and 2, Alder Trails, Sections 1 through 13, Alder Trails and Saddle Springs Lane, the Walgreens Commercial Tract, Barker Commons, Phase 1, Segments A through F, Barker Commons, Phase II, Segments A through C, Barker Cypress Service Station, and Market at Alder Trails; water plant improvements; wastewater treatment plant improvements; Riata Ranch Park; Barker Lake Park; Riata West Park; Alder Trails detention and lift station; Queenston Boulevard; and certain other facilities with portions of the proceeds of the sale of the Prior Bonds. Descriptions of the District's water supply and wastewater treatment facilities follow. In addition to the components of the District's System that it has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the cost of additional improvements to the System with the proceeds of the sale, if any, of bonds by the District in the future. See "INVESTMENT CONSIDERATIONS - Future Debt."

Wastewater Treatment

The District currently provides wastewater treatment with a facility that contains 1,400,000 gallons-per-day ("g.p.d.") of capacity, the cost of the acquisition of the District's portion of which the District financed with a portion of the proceeds of the sale of the Prior Bonds. As is described below under the caption "AGREEMENTS FOR SERVICE," the District has contracted to provide permanent wastewater treatment capacity to Remington MUD No. 1. According to the District's Engineer, the District's 900,000 gpd share of the total 1,400,000 gpd facility is sufficient to provide service to 3,000 ESFCs.

Water Supply

The District's water supply facilities include one (1) 1,800 gallons-per-minute ("g.p.m.") well, and one (1) 1,000 gpm well, 9,000 g.p.m. of booster pump capacity, four (4) 15,000 gallon hydropneumatic tanks, and three (3) 428,000 gallon ground storage tanks. In addition, the District receives surface water from the Authority (as defined below) under "Subsidence and Conversion to Surface Water Supply"). The District financed the acquisition of such facilities with a portion of the proceeds of the sale of the Prior Bonds. According to the District's Engineer, the aforementioned water supply facilities contain sufficient capacity to provide service to 4,666 ESFCs, assuming that the booster pumps can meet peak demand. As is described below under the caption "AGREEMENTS FOR SERVICE," the District has sold a total of 1,800 ESFCs to Remington MUD No. 1. The District financed its cost of a water interconnection line with Remington MUD No. 1 with portions of the proceeds of the sale of the Prior Bonds. According to the District's Engineer, the District's water supply facilities contain sufficient capacity to provide service to 4,666 ESFCs.

Storm Drainage and 100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency ("FEMA") has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100 year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100 year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100 year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

The District is bisected by a Tennessee Gas Pipeline Easement. The portion of the District that is north of the pipeline easement generally drains to the north to Cypress Creek through a man-made drainage channel that is maintained by the Harris County Flood Control District and the portion of the District that is south of the pipeline easement generally drains to the south to Horsepen Creek through a man-made channel that is also maintained by the Harris County Flood Control District. Storm water runoff in the portion of the District that is north of the pipeline easement is, or will be, collected through curb and gutter streets to an underground drainage system that outfalls to detention facilities, then to an offsite channel, then to Cypress Creek. Storm water runoff in the portion of the District that is south of the pipeline easement is collected through curb and gutter streets to an underground drainage system that outfalls to an onsite channel, then to an offsite channel, then to a regional detention facility, then to Horsepen Creek.

According to the District's Engineer, the Federal Emergency Management Agency ("FEMA") Flood Hazard Boundary Map currently in effect which covers the land located in the District indicates that no land located within the District lies within the 100-year flood plain.

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas estimates for the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study, which is based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

Regulation

Construction and operation of the District's System as it now exists or as it may be expanded from time to time is subject to the regulatory jurisdiction of several Federal, State and local authorities. The TCEQ exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the TCEQ and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of Harris County, the TCEQ and the U.S. Army Corps of Engineers. Harris County and the City of Houston also exercise regulatory jurisdiction over the District's System.

AGREEMENTS FOR SERVICE

Permanent Water Supply Contract with Remington MUD No. 1

On June 10, 1998, the District entered into a Water Supply Contract with Remington Municipal Utility District No. 1 ("Remington") for the provision of emergency and interim water service by the District to Remington. The contract was subsequently terminated pursuant to the terms of a Permanent Water Supply Contract dated October 31, 1999 which was subsequently amended on November 18, 1999, August 23, 2000, September 19, 2001, and December 28, 2005 (the "Permanent Water Supply Contract"). The Permanent Water Supply Contract provides for the sale of 900 ESFCs of water capacity to Remington in consideration of payment of \$750,000 to the District which has been paid in full. In addition, the District agreed to sell at Remington's option an additional 600 ESFCs at a purchase price of \$250,000 per 300 connections purchased. On January 23, 2002, Remington exercised its right to purchase an additional 300 ESFCs

of capacity and paid \$250,000 for the capacity. On December 17, 2012, Remington exercised its option to purchase an additional 300 ESFCs, bringing the total ESFCs owned by Remington to 1,800. In addition, Remington MUD No.1 pays to the District a monthly operating charge as set forth in the Permanent Water Supply Contract.

Waste Disposal Agreement with Remington MUD No. 1

The District and Remington MUD No. 1 entered into a Permanent Waste Disposal Agreement dated April 25, 2001, and amended March 20, 2002, which provides for expansion of the District's wastewater treatment plant and the provision of up to 1,000,000 gallons per day ("gpd") of wastewater treatment service by the District to Remington. The wastewater treatment plant currently contains 1,400,000 gpd of capacity of which 900,000 gpd is owned by the District and 500,000 gpd is owned by Remington.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 2001, the Texas legislature created the West Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District) and a small portion of Fort Bend County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, user fees, rates, charges and special assessments as necessary to accomplish its purposes. The Authority currently charges the District, and other major groundwater users, a fee of \$3.20 per 1,000 gallons of groundwater pumped. It is anticipated that said fee will increase in the future. The Authority has to date issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will issue substantially more bonds by the year 2030 to finance the Authority's project costs.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) have limited groundwater withdrawals to no more than 70% of the total water demand within the Authority's GRP beginning January 2010; (ii) limit groundwater withdrawals to no more than 40% of the total water demand within the Authority's GRP beginning January 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand within the Authority's GRP beginning January 2035. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a \$9.00 per 1,000 gallons disincentive fee penalty ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand within the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings had incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel (“Bond Counsel”), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District and that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds, and except as to certain Registered Owners as described under “TAX MATTERS” below. The opinion of Bond Counsel will be printed on the Bonds; however, errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for the failure or refusal by the Underwriter to accept delivery of and pay for the Bonds. Moreover, the statutes, regulations, rulings, and court decisions as to the excludability of interest on the Bonds from gross income on which such opinions are based are subject to change.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P., has reviewed the information appearing in this Official Statement under the captions “THE BONDS” (except for the information contained in the subheading “Book-Entry-Only-System”), “PLAN OF FINANCING - Refunded Bonds,” - “Escrow Agreement,” and - “Defeasance of the Refunded Bonds,” “TAXING PROCEDURES,” “THE DISTRICT - Authority,” and - “Attorney,” “LEGAL MATTERS - Legal Opinions,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the law referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such party’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P., Houston, Texas.

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, to the knowledge of the signatories, threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

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

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF 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.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

Collateral Federal Income Tax Consequences

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

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, 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.

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided on behalf of the District relating to (a) computation of the adequacy of the amounts deposited with the Escrow Agent and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yield on the Bonds and the Escrowed Securities (c) the mathematical computations related to certain requirements of City of Houston Ordinance No. 97-416 was verified by Robert Thomas, CPA, LLP, Certified Public Accountants. The computations were independently verified by Robert Thomas, CPA, LLP based solely upon assumptions and information supplied on behalf of the District and the District.

Robert Thomas CPA, LLC relied on the accuracy, completeness and reliability of all information provide to it by, and on all decisions and approvals of, the District. In addition, Robert Thomas CPA, LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

OFFICIAL STATEMENT

General

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

The District's financial statements for the fiscal year ended April 30, 2019, were audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants, Houston, Texas, and have been included herein as "APPENDIX B." McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants, has agreed to the publication of its audit opinion on such financial statements in this Official Statement.

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE BONDS - Use and Distribution of Bond Proceeds," "THE DISTRICT" and "THE SYSTEM" has been provided by Koehn & Associates Engineers Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by Utility Tax Service, LLC and the Appraisal District. Such information has been included herein in reliance upon Utility Tax Service, LLC 's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of tax appraisal.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriter is no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the "end of the underwriting period" as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB, but in no case less than 25 days after the "end of the underwriting period."

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 (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “SELECTED FINANCIAL INFORMATION” and “TAX DATA” and in “APPENDIX B” (the Audit). The District will update and provide this information within six months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District's audit is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within the required time, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

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

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although 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 to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners and Beneficial Owners of the Bonds. 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 so provided.

Compliance With Prior Undertakings

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 196 as of the date shown on the first page hereof.

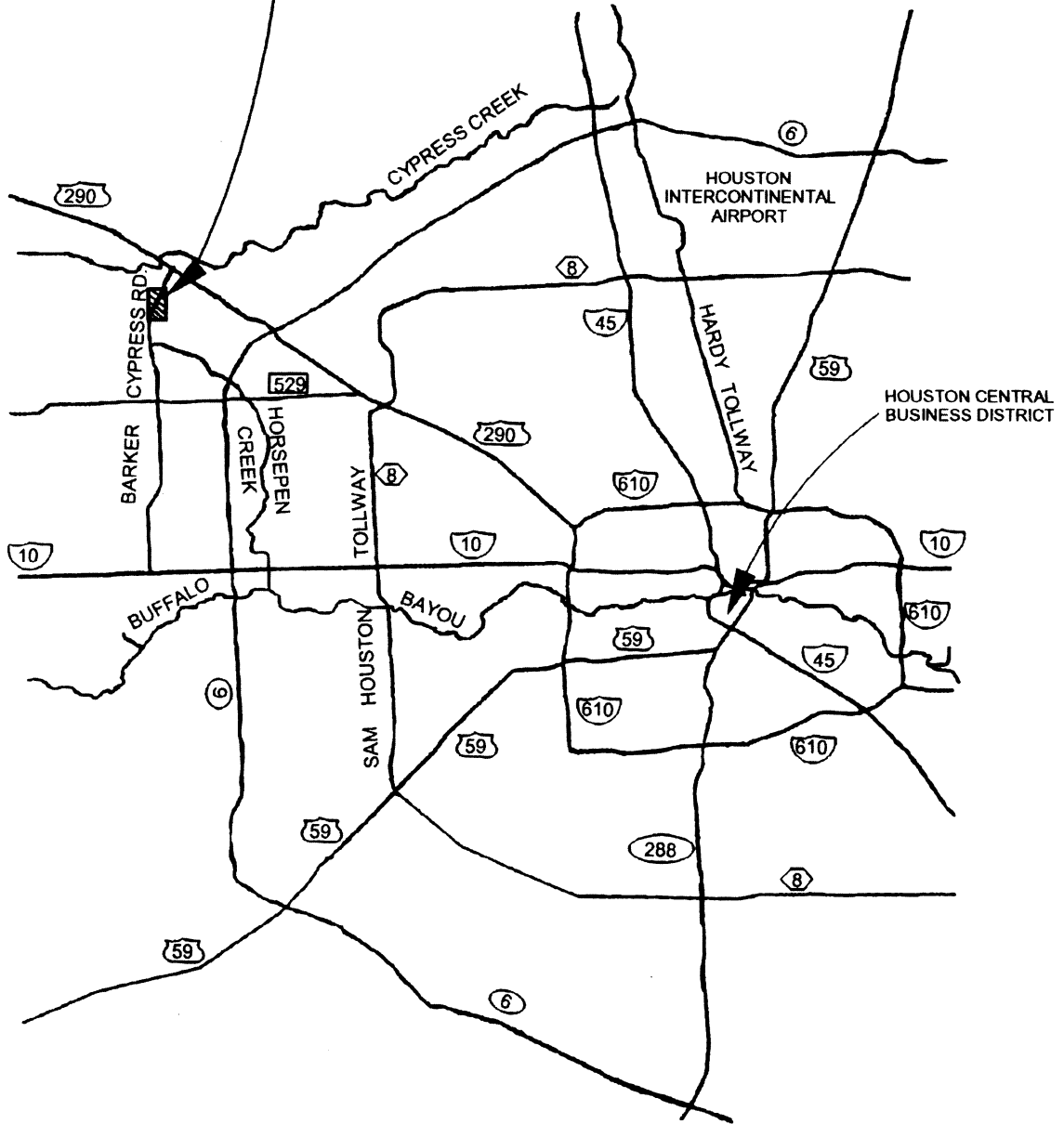
/s/ Roy R. Behrens, Jr.
President, Board of Directors
Harris County Municipal Utility District No. 196

ATTEST:

/s/ Parke B. Patterson
Secretary, Board of Directors
Harris County Municipal Utility District No. 196

APPENDIX A
LOCATION MAP

**HARRIS COUNTY
M.U.D. NO.196**



KE KOEHN & ASSOCIATES
ENGINEERS, INC.

2500 CENTRAL PARKWAY
SUITE Z
HOUSTON, TEXAS 77092-7713
713/682-2527 • FAX 713/682-3002

APPENDIX B

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

APRIL 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 196
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 196 (the "District"), as of and for the year ended April 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 April 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 Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Special Revenue Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

August 21, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2019**

Management’s discussion and analysis of Harris County Municipal Utility District No. 196’s (the “District”) financial performance provides an overview of the District’s financial activities for the fiscal year ended April 30, 2019. Please read it in conjunction with the District’s financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Special Revenue Fund accounts for the costs of the jointly owned wastewater treatment plant with Remington Municipal Utility District No. 1. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2019**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”). Budgetary comparison schedules are included as RSI for the General Fund and Special Revenue Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, liabilities exceeded assets by \$5,939,561 as of April 30, 2019. A portion of the District’s net position reflects its net investment in capital assets (water, wastewater, drainage and park facilities, as well as land and capacity interest in joint facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | Summary of Changes in the Statement of Net Position | | |
|---|---|-----------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Current and Other Assets | \$ 8,335,163 | \$ 6,681,372 | \$ 1,653,791 |
| Capital Assets (Net of Accumulated Depreciation) | 19,878,267 | 19,437,913 | 440,354 |
| Total Assets | \$ 28,213,430 | \$ 26,119,285 | \$ 2,094,145 |
| Due to Developer | \$ 33,406 | \$ 1,111,428 | \$ 1,078,022 |
| Bonds Payable | 33,389,475 | 30,190,466 | (3,199,009) |
| Other Liabilities | 730,110 | 684,088 | (46,022) |
| Total Liabilities | \$ 34,152,991 | \$ 31,985,982 | \$ (2,167,009) |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ (11,738,608) | \$ (11,319,236) | \$ (419,372) |
| Restricted | 2,742,682 | 2,643,428 | 99,254 |
| Unrestricted | 3,056,365 | 2,809,111 | 247,254 |
| Total Net Position | \$ (5,939,561) | \$ (5,866,697) | \$ (72,864) |

The following table provides a summary of the District's operations for the years ended April 30, 2019, and April 30, 2018.

| | Summary of Changes in the Statement of Activities | | |
|---------------------------------|---|----------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 3,064,002 | \$ 2,936,245 | \$ 127,757 |
| Charges for Services | 2,782,411 | 2,567,062 | 215,349 |
| Other Revenues | 206,803 | 156,903 | 49,900 |
| Total Revenues | \$ 6,053,216 | \$ 5,660,210 | \$ 393,006 |
| Expenses for Services | 6,126,080 | 5,553,510 | (572,570) |
| Change in Net Position | \$ (72,864) | \$ 106,700 | \$ (179,564) |
| Net Position, Beginning of Year | (5,866,697) | (5,973,397) | 106,700 |
| Net Position, End of Year | \$ (5,939,561) | \$ (5,866,697) | \$ (72,864) |

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of April 30, 2019, were \$7,354,755, an increase of \$1,666,561 from the prior year.

The General Fund fund balance increased by \$269,108, primarily due to operating and service revenues and a transfer from the Capital Projects Fund exceeding operating costs.

The Debt Service Fund fund balance increased by \$136,192, primarily due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance increased by \$1,261,261. The District used Series 2018 Bond proceeds to reimburse a developer and fund District construction projects (see Note 14).

BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$66,231 less than budgeted revenues primarily due to lower than anticipated water service and property tax revenues. Actual expenditures were \$60,173 less than budgeted expenditures primarily due to lower than anticipated purchased wastewater costs and water authority fees which were offset by higher than anticipated other costs. The District also adopted a revenue neutral budget for the Special Revenue Fund. Actual expenditures were \$37,039 less than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of April 30, 2019, total \$19,878,267 (net of accumulated depreciation) and include the water, wastewater, drainage and park facilities, as well as land and the capacity interest in joint facilities. Significant current year additions to capital assets includes infrastructure purchased as described in Note 14, Water Plant No. 2 Ground Storage Tank construction and Riata Ranch sanitary sewer rehabilitation.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|---------------|---------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 932,301 | \$ 932,301 | \$ |
| Construction in Progress | 34,530 | 395,787 | (361,257) |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Water System | 4,856,052 | 4,596,742 | 259,310 |
| Wastewater System | 6,075,004 | 5,644,369 | 430,635 |
| Drainage System | 6,073,188 | 5,819,451 | 253,737 |
| Parks and Recreational Facilities | 1,303,843 | 1,421,117 | (117,274) |
| Capacity Interest in Joint Facilities | 603,349 | 628,146 | (24,797) |
| Total Net Capital Assets | \$ 19,878,267 | \$ 19,437,913 | \$ 440,354 |

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED APRIL 30, 2019**

LONG-TERM DEBT ACTIVITY

As of April 30, 2019, the District had total bond debt payable of \$33,445,000. The changes in the debt position of the District during the fiscal year ended April 30, 2019, are summarized as follows:

| | |
|-----------------------------------|----------------------|
| Bond Debt Payable, May 1, 2018 | \$ 30,235,000 |
| Add: Bond Sale - Series 2018 | 4,140,000 |
| Less: Bond Principal Paid | <u>930,000</u> |
| Bond Debt Payable, April 30, 2019 | <u>\$ 33,445,000</u> |

The District’s Series 2010 Refunding Bonds, Series 2012 Refunding Bonds and Series 2013 Refunding Bonds carry an underlying rating of “BBB+” while the Series 2016 and 2018 Bonds carry an underlying rating of “A2”. The Series 2010 Refunding Bonds, Series 2012 Refunding and Series 2018 Bonds carry insured ratings of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The Series 2013 Refunding Bonds and 2016 Bonds carry insured ratings of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings reflect changes, if any, through April 30, 2019.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 196, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2019

| | General Fund | Special Revenue Fund |
|---|---------------------|-------------------------|
| ASSETS | | |
| Cash | \$ 2,643,837 | \$ 62,146 |
| Investments | 462 | |
| Receivables: | | |
| Property Taxes | 52,911 | |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts | 109,751 | |
| Accrued Interest | | |
| Other | 14,785 | 44 |
| Due from Other Funds | 32,236 | 38,129 |
| Prepaid Costs | 45,898 | |
| Due from Other Governmental Units | 307,592 | 23,913 |
| Advance for Wastewater Treatment Plant Operations | 52,860 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 3,260,332 | \$ 124,232 |

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

| Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|----------------------|--------------------------|--------------|---------------|------------------------------|
| \$ 2,450,192 | \$ 1,845,374 | \$ 7,001,549 | \$ | \$ 7,001,549 |
| 363,248 | 369 | 364,079 | | 364,079 |
| 130,513 | | 183,424 | | 183,424 |
| | | | 31,544 | 31,544 |
| | | 109,751 | | 109,751 |
| 2,367 | | 2,367 | | 2,367 |
| | | 14,829 | | 14,829 |
| | | 70,365 | (70,365) | |
| | | 45,898 | 250,217 | 296,115 |
| | | 331,505 | | 331,505 |
| | | 52,860 | (52,860) | |
| | | | 932,301 | 932,301 |
| | | | 34,530 | 34,530 |
| | | | 18,911,436 | 18,911,436 |
| \$ 2,946,320 | \$ 1,845,743 | \$ 8,176,627 | \$ 20,036,803 | \$ 28,213,430 |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
APRIL 30, 2019

| | General Fund | Special Revenue Fund |
|---|---------------------|-------------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 223,955 | \$ 16,108 |
| Accrued Interest Payable | | |
| Due to Developers | | |
| Due to Other Funds | 38,129 | 25,916 |
| Security Deposits | 192,100 | |
| Advance for Wastewater Treatment Plant Operations | | 82,208 |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 454,184 | \$ 124,232 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 52,911 | \$ - 0 - |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Costs | \$ 45,898 | \$ |
| For Wastewater Treatment Plant Operations | 52,860 | |
| Restricted for Authorized Construction | | |
| Restricted for Debt Service | | |
| Unassigned | 2,654,479 | |
| TOTAL FUND BALANCES | \$ 2,753,237 | \$ - 0 - |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 3,260,332 | \$ 124,232 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|------------------------------|----------------------------------|---------------------|-----------------------|--------------------------------------|
| \$ 5,053 | \$ 39,737 | \$ 284,853 | \$ | \$ 284,853 |
| 8,922 | | 8,922 | 214,887 | 223,809 |
| | | | 33,406 | 33,406 |
| 6,320 | | 70,365 | (70,365) | |
| | | 192,100 | | 192,100 |
| | | 82,208 | (52,860) | 29,348 |
| | | | 980,000 | 980,000 |
| | | | <u>32,409,475</u> | <u>32,409,475</u> |
| <u>\$ 20,295</u> | <u>\$ 39,737</u> | <u>\$ 638,448</u> | <u>\$ 33,514,543</u> | <u>\$ 34,152,991</u> |
| <u>\$ 130,513</u> | <u>\$ - 0 -</u> | <u>\$ 183,424</u> | <u>\$ (183,424)</u> | <u>\$ - 0 -</u> |
| \$ | \$ | \$ 45,898 | \$ (45,898) | \$ |
| | | 52,860 | (52,860) | |
| | 1,806,006 | 1,806,006 | (1,806,006) | |
| 2,795,512 | | 2,795,512 | (2,795,512) | |
| | | <u>2,654,479</u> | <u>(2,654,479)</u> | |
| <u>\$ 2,795,512</u> | <u>\$ 1,806,006</u> | <u>\$ 7,354,755</u> | <u>\$ (7,354,755)</u> | <u>\$ - 0 -</u> |
| <u>\$ 2,946,320</u> | <u>\$ 1,845,743</u> | <u>\$ 8,176,627</u> | | |
| | | | \$ (11,738,608) | \$ (11,738,608) |
| | | | 2,742,682 | 2,742,682 |
| | | | <u>3,056,365</u> | <u>3,056,365</u> |
| | | | <u>\$ (5,939,561)</u> | <u>\$ (5,939,561)</u> |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
APRIL 30, 2019

Total Fund Balances - Governmental Funds \$ 7,354,755

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

Prepaid bond insurance costs are amortized over the term of the debt in governmental activities. 250,217

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 19,878,267

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. 214,968

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

| | | |
|--------------------------|---------------------|---------------------|
| Due to Developer | \$ (33,406) | |
| Accrued Interest Payable | (214,887) | |
| Bonds Payable | <u>(33,389,475)</u> | <u>(33,637,768)</u> |

Total Net Position - Governmental Activities \$ (5,939,561)

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED APRIL 30, 2019

| | General Fund | Special Revenue Fund |
|---|---------------------|-------------------------|
| REVENUES | | |
| Property Taxes | \$ 891,602 | \$ |
| Water Service | 839,392 | |
| Wastewater Service | 382,931 | 441,105 |
| Water Authority Fees | 1,271,408 | |
| Connection, Inspection and Reconnect Fees | 126,904 | |
| Sales Tax Revenues | 77,561 | |
| Penalty and Interest | 28,293 | |
| Investment and Miscellaneous Revenues | 32,678 | 106 |
| TOTAL REVENUES | \$ 3,650,769 | \$ 441,211 |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Professional Fees | \$ 204,822 | \$ 3,000 |
| Contracted Services | 891,940 | 72,126 |
| Purchased Wastewater Service | 279,329 | |
| Utilities | 56,968 | 68,646 |
| Water Authority Costs | 1,288,505 | |
| Repairs and Maintenance | 438,466 | 125,899 |
| Depreciation | | |
| Other | 257,747 | 171,540 |
| Capital Outlay | 17,000 | |
| Debt Service: | | |
| Bond Principal | | |
| Bond and Developer Interest | | |
| Bond Issuance Costs | | |
| TOTAL EXPENDITURES/EXPENSES | \$ 3,434,777 | \$ 441,211 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | \$ 215,992 | \$ - 0 - |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | \$ 53,116 | \$ |
| Proceeds from Issuance of Long-Term Debt | | |
| Bond Discount | | |
| Bond Premium | | |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 53,116 | \$ - 0 - |
| NET CHANGE IN FUND BALANCES | \$ 269,108 | \$ |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - MAY 1, 2018 | 2,484,129 | |
| FUND BALANCES/NET POSITION - APRIL 30, 2019 | \$ 2,753,237 | \$ - 0 - |

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

| Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|----------------------|--------------------------|-----------------------|------------------------|----------------------------|
| \$ 2,184,165 | \$ | \$ 3,075,767 | \$ (11,765) | \$ 3,064,002 |
| | | 839,392 | | 839,392 |
| | | 824,036 | (279,329) | 544,707 |
| | | 1,271,408 | | 1,271,408 |
| | | 126,904 | | 126,904 |
| | | 77,561 | | 77,561 |
| 50,652 | | 78,945 | 1,421 | 80,366 |
| 14,032 | 2,060 | 48,876 | | 48,876 |
| <u>\$ 2,248,849</u> | <u>\$ 2,060</u> | <u>\$ 6,342,889</u> | <u>\$ (289,673)</u> | <u>\$ 6,053,216</u> |
| \$ 19,329 | \$ | \$ 227,151 | \$ | \$ 227,151 |
| 48,555 | | 1,012,621 | | 1,012,621 |
| | | 279,329 | (279,329) | |
| | | 125,614 | | 125,614 |
| | | 1,288,505 | | 1,288,505 |
| | | 564,365 | | 564,365 |
| | | | 817,964 | 817,964 |
| 11,667 | 244 | 441,198 | | 441,198 |
| | 2,319,340 | 2,336,340 | (2,336,340) | |
| | | | | |
| 930,000 | | 930,000 | (930,000) | |
| 1,103,106 | 105,549 | 1,208,655 | 54,189 | 1,262,844 |
| | 385,818 | 385,818 | | 385,818 |
| <u>\$ 2,112,657</u> | <u>\$ 2,810,951</u> | <u>\$ 8,799,596</u> | <u>\$ (2,673,516)</u> | <u>\$ 6,126,080</u> |
| <u>\$ 136,192</u> | <u>\$ (2,808,891)</u> | <u>\$ (2,456,707)</u> | <u>\$ 2,383,843</u> | <u>\$ (72,864)</u> |
| \$ | \$ (53,116) | \$ | \$ | \$ |
| | 4,140,000 | 4,140,000 | (4,140,000) | |
| | (20,866) | (20,866) | 20,866 | |
| | 4,134 | 4,134 | (4,134) | |
| <u>\$ - 0 -</u> | <u>\$ 4,070,152</u> | <u>\$ 4,123,268</u> | <u>\$ (4,123,268)</u> | <u>\$ - 0 -</u> |
| \$ 136,192 | \$ 1,261,261 | \$ 1,666,561 | \$ (1,666,561) | \$ |
| | | | (72,864) | (72,864) |
| 2,659,320 | 544,745 | 5,688,194 | (11,554,891) | (5,866,697) |
| <u>\$ 2,795,512</u> | <u>\$ 1,806,006</u> | <u>\$ 7,354,755</u> | <u>\$ (13,294,316)</u> | <u>\$ (5,939,561)</u> |

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2019**

| | |
|--|--------------------|
| Net Change in Fund Balances - Governmental Funds | \$ 1,666,561 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | (11,765) |
| Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenues are recorded when penalty and interest are assessed. | 1,421 |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | (817,964) |
| Governmental funds report capital asset costs as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | 2,336,340 |
| In the Statement of Net Position, bond discounts and premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. | 16,732 |
| Governmental funds report bond principal payments on long-term liabilities as expenditures. However, in the government-wide statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected. | 930,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | (54,189) |
| Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. | <u>(4,140,000)</u> |
| Change in Net Position - Governmental Activities | <u>\$ (72,864)</u> |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 196 of Harris County, Texas (the “District”) was created effective December 15, 1981, by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on January 20, 1982 and sold its first series of bonds on December 1, 1998.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District participates in the joint venture for the operation of a regional wastewater treatment plant. Since the District exercises oversight responsibility over the plant, it is accounted for as a joint venture of the District in the Special Revenue Fund. See Note 9 for additional disclosure.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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.

Government-Wide Financial Statements

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

The District has four governmental funds and considers these to be major funds.

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

Special Revenue Fund - To account for financial activities of the wastewater treatment plant which is a joint venture between the District and Remington Municipal Utility District No. 1.

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

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

Basis of Accounting

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of April 30, 2019, the District had the following interfund liabilities: the Debt Service Fund owed the General Fund \$6,320 for maintenance tax collections and bond issuance costs; the General Fund owed the Special Revenue Fund \$38,129 for wastewater treatment plant operations; and the Special Revenue Fund owed the General Fund \$25,916 for insurance costs. During the current year, the Capital Projects Fund transferred \$65,249 to the General Fund to reimburse construction and bond issuance costs paid in a prior year.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. The District chose to early implement GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interests 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.

Assets are capitalized, including infrastructure assets, if they have an original cost of \$25,000 or more and a useful life of two years or more. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|-----------------------------------|-------|
| Water System | 10-45 |
| Wastewater System | 10-45 |
| Drainage System | 10-45 |
| Parks and Recreational Facilities | 10-45 |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for both the General Fund and Special Revenue Fund. The budgets were not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

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

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

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

As of April 30, 2019, the District had authorized but unissued bonds in the amount of \$5,046,795 for utility facilities or refunding purposes and authorized but unissued bonds in the amount of \$500,000 for parks and recreational facilities. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The following is a summary of transactions regarding bonds payable for the year ended April 30, 2019:

| | May 1, 2018 | Additions | Retirements | April 30, 2019 |
|-----------------------|----------------------|----------------------------|-------------------|----------------------|
| Bonds Payable | \$ 30,235,000 | \$ 4,140,000 | \$ 930,000 | \$ 33,445,000 |
| Unamortized Discounts | (249,831) | | (16,071) | (233,760) |
| Unamortized Premiums | 205,297 | | 27,062 | 178,235 |
| Bonds Payable, Net | <u>\$ 30,190,466</u> | <u>\$ 4,140,000</u> | <u>\$ 940,991</u> | <u>\$ 33,389,475</u> |
| | | Amount Due Within One Year | | \$ 980,000 |
| | | Amount Due After One Year | | <u>32,409,475</u> |
| | | Bonds Payable, Net | | <u>\$ 33,389,475</u> |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The District's bonds payable at April 30, 2019, consist of the following:

| | Refunding Series 2010 | Refunding Series 2012 | Refunding Series 2013 |
|--|---------------------------|---------------------------|---------------------------|
| Amount Outstanding - April 30, 2019 | \$ 4,445,000 | \$ 9,500,000 | \$ 6,715,000 |
| Interest Rates | 4.00% - 4.25% | 3.00% - 3.50% | 3.00% - 4.00% |
| Maturity Dates – Serially Beginning/Ending | September 1, 2019/2029 | September 1, 2019/2034 | September 1, 2019/2025 |
| Interest Payment Dates | September 1/ March 1 | September 1/ March 1 | September 1/ March 1 |
| Callable Dates | September 1, 2020* | September 1, 2020* | September 1, 2020* |
| | Series 2016 | Series 2018 | |
| Amount Outstanding - April 30, 2019 | \$ 8,645,000 | \$ 4,140,000 | |
| Interest Rates | 3.00% - 4.125% | 4.00% - 4.125% | |
| Maturity Dates – Serially Beginning/Ending | September 1, 2019/2040 | September 1, 2041/2043 | |
| Interest Payment Dates | September 1/ March 1 | September 1/ March 1 | |
| Callable Dates | September 1, 2023* | September 1, 2023* | |

* Or on any date thereafter, callable in whole or in part at a price of par plus accrued interest on the date of redemption. Series 2012 Refunding term bonds maturing September 1, 2023 and 2029 are subject to mandatory redemption on September 1, 2019 and 2024, respectively. Series 2016 term bonds maturing September 1, 2027, 2034, and 2040, are subject to mandatory redemption on September 1, 2024, 2028, and 2038, respectively.

During the year ended April 30, 2019, the District levied an ad valorem debt service tax rate of \$0.44 per \$100 of assessed valuation, which resulted in a tax levy of \$2,173,024 on the adjusted taxable valuation of \$493,869,035 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of April 30, 2019, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2020 | \$ 980,000 | \$ 1,276,847 | \$ 2,256,847 |
| 2021 | 1,045,000 | 1,212,856 | 2,257,856 |
| 2022 | 1,080,000 | 1,180,682 | 2,260,682 |
| 2023 | 1,105,000 | 1,142,756 | 2,247,756 |
| 2024 | 1,145,000 | 1,098,807 | 2,243,807 |
| 2025-2029 | 6,000,000 | 4,809,489 | 10,809,489 |
| 2030-2034 | 8,245,000 | 3,468,643 | 11,713,643 |
| 2035-2039 | 6,830,000 | 2,086,556 | 8,916,556 |
| 2040-2044 | 7,015,000 | 716,353 | 7,731,353 |
| | <u>\$ 33,445,000</u> | <u>\$ 16,992,989</u> | <u>\$ 50,437,989</u> |

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$7,348,613 and the bank balance was \$7,349,649. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at April 30, 2019, as listed below:

| | Cash | Certificates of Deposit | Total |
|-----------------------|---------------------|----------------------------|---------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| GENERAL FUND | \$ 2,643,837 | \$ | \$ 2,643,837 |
| SPECIAL REVENUE FUND | 62,146 | | 62,146 |
| DEBT SERVICE FUND | 2,450,192 | 347,064 | 2,797,256 |
| CAPITAL PROJECTS FUND | <u>1,845,374</u> | | <u>1,845,374</u> |
| TOTAL DEPOSITS | <u>\$ 7,001,549</u> | <u>\$ 347,064</u> | <u>\$ 7,348,613</u> |

Investments

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

The District records its investments in certificates of deposit at acquisition cost. As of April 30, 2019, the District had the following investments and maturities:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|------------------------------|------------|--------------------------------------|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 462 | \$ 462 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 16,184 | 16,184 |
| Certificates of Deposit | 347,064 | 347,064 |
| <u>CAPITAL PROJECTS FUND</u> | | |
| TexPool | 369 | 369 |
| TOTAL INVESTMENTS | \$ 364,079 | \$ 364,079 |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At April 30, 2019, TexPool was rated AAAM by Standard and Poor's. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2019 is as follows:

| | May 1, 2018 | Increases | Decreases | April 30, 2019 |
|--|----------------------|---------------------|---------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 932,301 | \$ | \$ | \$ 932,301 |
| Construction in Progress | 395,787 | 1,258,318 | 1,619,575 | 34,530 |
| Total Capital Assets Not Being Depreciated | <u>\$ 1,328,088</u> | <u>\$ 1,258,318</u> | <u>\$ 1,619,575</u> | <u>\$ 966,831</u> |
| Capital Assets Subject to Depreciation | | | | |
| Water System | \$ 8,474,958 | \$ 571,749 | \$ | \$ 9,046,707 |
| Wastewater System | 8,442,480 | 638,863 | | 9,081,343 |
| Drainage System | 6,628,202 | 408,963 | | 7,037,165 |
| Parks and Recreational Facilities | 2,110,560 | | | 2,110,560 |
| Capacity Interest in Joint Facilities | 967,084 | | | 967,084 |
| Total Capital Assets Subject to Depreciation | <u>\$ 26,623,284</u> | <u>\$ 1,619,575</u> | <u>\$ - 0 -</u> | <u>\$ 28,242,859</u> |
| Accumulated Depreciation | | | | |
| Water System | \$ 3,878,216 | \$ 312,439 | \$ | \$ 4,190,655 |
| Wastewater System | 2,798,111 | 208,228 | | 3,006,339 |
| Drainage System | 808,751 | 155,226 | | 963,977 |
| Parks and Recreational Facilities | 689,443 | 117,274 | | 806,717 |
| Capacity Interest in Joint Facilities | 338,938 | 24,797 | | 363,735 |
| Total Accumulated Depreciation | <u>\$ 8,513,459</u> | <u>\$ 817,964</u> | <u>\$ - 0 -</u> | <u>\$ 9,331,423</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 18,109,825</u> | <u>\$ 801,611</u> | <u>\$ - 0 -</u> | <u>\$ 18,911,436</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 19,437,913</u> | <u>\$ 2,059,929</u> | <u>\$ 1,619,575</u> | <u>\$ 19,878,267</u> |

NOTE 7. MAINTENANCE TAX

On June 29, 1985, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the year ended April 30, 2019, the District levied an ad valorem maintenance tax rate of \$0.18 per \$100 of assessed valuation, which resulted in a tax levy of \$888,964 on the adjusted taxable valuation of \$493,869,035 for the 2018 tax year. This maintenance may be used for any lawfully authorized purpose. The District's tax calendar is as follows:

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 8. PERMANENT WATER SUPPLY CONTRACT WITH REMINGTON MUNICIPAL UTILITY DISTRICT NO. 1

On October 31, 1999, the District executed a Permanent Water Supply Contract with Remington Municipal Utility District No. 1 (Remington). The agreement has a term of 50 years. On November 18, 1999, August 23, 2000, September 19, 2001, December 28, 2005 and July 1, 2012, the District executed the First, Second, Third, Fourth and Fifth Amendments, respectively, to the contract to provide for additional points of connection between Remington and the District's water system as well as provide for the billing of the ground water reduction plan fee at the rates charged by the West Harris County Regional Water Authority. The District conveyed to Remington sufficient capacity to serve 1,200 equivalent connections in consideration for the payment of \$1,000,000, which was paid in a prior fiscal year. Remington also purchased 300 equivalent connections at a price of \$250,000 and an additional 300 equivalent connections at a price of \$250,000. Remington currently owns sufficient capacity to serve 1,800 connections.

The District is responsible for operating the plant and for maintaining the facilities in good working order. The cost of production as defined by the contract is \$0.50 per 1,000 gallons. This factor will be reviewed every five years. Currently, Remington's purchase price for water is calculated as follows: cost of production + 35% per each 1,000 gallons of water supplied (\$0.675) + authority fee up to 21,870,000 gallons. The per 1,000-gallon rate charged for water used in excess of 21,870,000 gallons is \$0.675 times 3 + authority fee.

NOTE 9. PERMANENT WASTE DISPOSAL AGREEMENT

On April 25, 2001, the District executed a Permanent Waste Disposal Agreement with Remington. On March 20, 2002, the District executed a first amendment to the agreement in order to increase total capacity of the plant to 1,400,000 gpd with each district funding its portion of the expansion. Each district's pro-rata share is as follows:

| | GPD | Percentage |
|--|-----------|------------|
| Harris County Municipal Utility District No. 196 | 900,000 | 64.30% |
| Remington Municipal Utility District No. 1 | 500,000 | 35.70 |
| | 1,400,000 | 100.00% |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 9. PERMANENT WASTE DISPOSAL AGREEMENT (Continued)

The District holds legal title to the plant for the benefit of the parties and on the terms and conditions provided in the agreement. This agreement is in force for a period of 50 years from the effective date of the agreement.

The District is responsible for operating the plant. The billing to each district is based on two types of costs, fixed and variable. Fixed costs are those costs incurred whether or not any wastewater flows through the plant and are allocated to the participants based upon capacity owned in the plant. In addition, extraordinary repairs, as defined by the plant engineer, are allocated to the participants based on owned capacity in the plant. Variable costs are all costs incurred based on the flow of wastewater through the plant and are allocated to the participants based on each district's pro rata number of active connections. The plant serves 1,121 connections within Remington. The number of District connections served by the plant is periodically updated.

Transactions from the current year are summarized as follows:

| | Harris County Municipal Utility District No. 196 | Remington Municipal Utility District No. 1 | Total |
|---|---|---|------------------|
| Due From (To) Participants at May 1, 2018 | \$ 46,834 | \$ 36,782 | \$ 83,616 |
| Operating Costs | 279,329 | 161,776 | 441,105 |
| Increase (Decrease) in Reserve | 1,608 | 892 | 2,500 |
| Payments Received | <u>289,642</u> | <u>175,537</u> | <u>465,179</u> |
| Due From (To) Participants at April 30, 2019 | <u>\$ 38,129</u> | <u>\$ 23,913</u> | <u>\$ 62,042</u> |

Reserves are calculated based on two months of budgeted operating expenses. Total amounts advanced by each participant is summarized below:

| | May 1, 2018 | Increase (Decrease) | April 30, 2019 |
|---|------------------|------------------------|------------------|
| Harris County Municipal Utility District No. 196 | \$ 51,252 | \$ 1,608 | \$ 52,860 |
| Remington Municipal Utility District No. 1 | 28,456 | 892 | 29,348 |
| | <u>\$ 79,708</u> | <u>\$ 2,500</u> | <u>\$ 82,208</u> |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 10. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the “Act”), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions.

The Authority charges a fee which enables the Authority to fulfill its purpose and regulatory functions. At year-end, the fee being charged was \$2.95 per 1,000 gallons of water pumped from each well and \$3.35 per 1,000 gallons for purchased surface water. The District recorded pumpage and surface water costs of \$1,288,505 during the current fiscal year.

NOTE 11. RISK MANAGEMENT

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

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT

Effective December 20, 2007, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas (the “City”). The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the “Subject Tract” for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Subject Tract within the boundaries of the District.

Upon annexation, the City began imposing a Sales and Use Tax within the boundaries of the Subject Tract on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City is required to pay the District an amount equal to one-half of all Sales and Use Tax revenues generated within the boundaries of the Subject Tract within 30 days of the City receiving the funds from the State Comptroller’s office. During the current fiscal year, the District recorded \$77,561 of sales tax revenue from the City of Houston, of which \$16,428 was recorded as receivable at year end.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
NOTES TO THE FINANCIAL STATEMENTS
APRIL 30, 2019

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement.

NOTE 13. UNREIMBURSED COSTS

In accordance with the terms of certain development financing agreements, Developers within the District have made expenditures on behalf of the District for water, sewer and drainage facilities for which the District has not sold bonds. Reimbursements will come from proceeds of future bond sales or surplus funds.

NOTE 14. BOND SALE

On December 20, 2018, the District issued its Series 2018 Unlimited Tax Bonds in the amount of \$4,140,000. The District used a portion of the proceeds to reimburse the Developer for the design and construction of water, sewer and drainage facilities to serve Alder Trails, Sections 5 through 13 and Alder Trails, Saddle Springs Lane. Additional bond proceeds totaling \$1,144,000 were set aside for the following District projects: electrical rehabilitation at Water Plant No. 1; Phase II booster pump upgrades at Water Plant Nos. 1 and 2; and the replacement of existing ground storage tanks at Water Plant Nos. 1 and 2. Bond proceeds were also used to reimburse the General Fund for the design and construction of an additional ground storage tank at Water Plant No. 2 and pay issuance costs of the bonds.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196

REQUIRED SUPPLEMENTARY INFORMATION

APRIL 30, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED APRIL 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|--------------------------------------|---------------------|---|
| REVENUES | | | |
| Property Taxes | \$ 950,000 | \$ 891,602 | \$ (58,398) |
| Water Service | 975,000 | 839,392 | (135,608) |
| Wastewater Service | 330,000 | 382,931 | 52,931 |
| Water Authority Fees | 1,300,000 | 1,271,408 | (28,592) |
| Connection, Inspection and Reconnect Fees | 72,000 | 126,904 | 54,904 |
| Sales Tax Revenues | 55,000 | 77,561 | 22,561 |
| Penalty and Interest | 25,000 | 28,293 | 3,293 |
| Investment and Miscellaneous Revenues | <u>10,000</u> | <u>32,678</u> | <u>22,678</u> |
| TOTAL REVENUES | <u>\$ 3,717,000</u> | <u>\$ 3,650,769</u> | <u>\$ (66,231)</u> |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Professional Fees | \$ 203,500 | \$ 204,822 | \$ (1,322) |
| Contracted Services | 885,500 | 891,940 | (6,440) |
| Purchased Wastewater Service | 307,450 | 279,329 | 28,121 |
| Utilities | 65,000 | 56,968 | 8,032 |
| Water Authority Costs | 1,400,000 | 1,288,505 | 111,495 |
| Repairs and Maintenance/Capital Outlay | 425,000 | 455,466 | (30,466) |
| Other | <u>208,500</u> | <u>257,747</u> | <u>(49,247)</u> |
| TOTAL EXPENDITURES | <u>\$ 3,494,950</u> | <u>\$ 3,434,777</u> | <u>\$ 60,173</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 222,050</u> | <u>\$ 215,992</u> | <u>\$ (6,058)</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers In | <u>\$ -0-</u> | <u>\$ 53,116</u> | <u>\$ 53,116</u> |
| NET CHANGE IN FUND BALANCE | \$ 222,050 | \$ 269,108 | \$ 47,058 |
| FUND BALANCE - MAY 1, 2018 | <u>2,484,129</u> | <u>2,484,129</u> | <u></u> |
| FUND BALANCE - APRIL 30, 2019 | <u>\$ 2,706,179</u> | <u>\$ 2,753,237</u> | <u>\$ 47,058</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED APRIL 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---------------------------------------|--------------------------------------|-----------------------------|---|
| REVENUES | | | |
| Wastewater Service | \$ 478,150 | \$ 441,105 | \$ (37,045) |
| Investment and Miscellaneous Revenues | <u>100</u> | <u>106</u> | <u>6</u> |
| TOTAL REVENUES | <u>\$ 478,250</u> | <u>\$ 441,211</u> | <u>\$ (37,039)</u> |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Professional Fees | \$ 8,000 | \$ 3,000 | \$ 5,000 |
| Contracted Services | 68,000 | 72,126 | (4,126) |
| Utilities | 76,750 | 68,646 | 8,104 |
| Repairs and Maintenance | 100,000 | 125,899 | (25,899) |
| Other | <u>225,500</u> | <u>171,540</u> | <u>53,960</u> |
| TOTAL EXPENDITURES | <u>\$ 478,250</u> | <u>\$ 441,211</u> | <u>\$ 37,039</u> |
| NET CHANGE IN FUND BALANCE | \$ -0- | \$ -0- | \$ -0- |
| FUND BALANCE - MAY 1, 2018 | <u> </u> | <u> </u> | <u> </u> |
| FUND BALANCE - APRIL 30, 2019 | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

APRIL 30, 2019

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2019

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective February 15, 2017.

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1,000 Gallons over Minimum Use | Usage Levels |
|----------------------|----------------|-------------------|---------------|---|--|
| WATER: | \$ 20.00 | 5,000 | N | \$ 1.50 \$ 2.00 \$ 2.50 \$ 3.00 \$ 3.50 | 5,001 to 10,000 10,001 to 20,000 20,001 to 50,000 50,001 to 75,000 75,001 and up |
| WASTEWATER: | \$ 15.00 | | Y | | |
| SURCHARGE: | | | | | |
| Water Authority Fees | \$ 3.52 | Per 1,000 gallons | | | |

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$27.50 Wastewater: \$15.00 Surcharge: \$35.20 Total: \$77.70

See accompanying independent auditor’s report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFCs</u> |
|------------------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | 1 | 1 | x 1.0 | 1 |
| ≤¾" | 1,956 | 1,951 | x 1.0 | 1,951 |
| 1" | 85 | 85 | x 2.5 | 213 |
| 1½" | 6 | 6 | x 5.0 | 30 |
| 2" | 41 | 40 | x 8.0 | 320 |
| 3" | | | x 15.0 | |
| 4" | | | x 25.0 | |
| 6" | 4 | 4 | x 50.0 | 200 |
| 8" | 3 | 3 | x 80.0 | 240 |
| 10" | 2 | 2 | x 115.0 | 230 |
| Total Water Connections | <u>2,098</u> | <u>2,092</u> | | <u>3,185</u> |
| Total Wastewater Connections | <u>1,998</u> | <u>1,992</u> | x 1.0 | <u>1,992</u> |

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

| | | |
|------------------------------|-------------|---|
| Gallons pumped into system: | 95,840,000 | Water Accountability Ratio: 93% (Gallons billed and sold/Gallons pumped and purchased) |
| Gallons billed to customers: | 236,224,000 | |
| Gallons purchased: | 328,362,000 | From: West Harris County Regional Water Authority |
| Gallons sold: | 157,566,000 | To: Remington Municipal Utility District No. 1 |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
SERVICES AND RATES
FOR THE YEAR ENDED APRIL 30, 2019

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED APRIL 30, 2019

| | |
|--|---------------------|
| PROFESSIONAL FEES: | |
| Auditing | \$ 15,750 |
| Engineering | 76,604 |
| Legal | 112,468 |
| TOTAL PROFESSIONAL FEES | <u>\$ 204,822</u> |
| PURCHASED WASTEWATER SERVICE | <u>\$ 279,329</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | \$ 18,169 |
| Operations and Billing | 117,842 |
| Security Services | 207,501 |
| Solid Waste Disposal | 548,428 |
| TOTAL CONTRACTED SERVICES | <u>\$ 891,940</u> |
| UTILITIES | <u>\$ 56,968</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 438,466</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees, Including Payroll Taxes | \$ 14,530 |
| Election Costs | 5,190 |
| Insurance | 16,615 |
| Office Supplies and Postage | 48,553 |
| Travel and Meetings | 12,752 |
| Other | 11,266 |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 108,906</u> |
| CAPITAL OUTLAY | <u>\$ 17,000</u> |
| OTHER EXPENDITURES: | |
| Chemicals | \$ 7,692 |
| Laboratory Fees | 9,627 |
| Permit Fees | 5,081 |
| Inspection/Reconnection Fees | 44,258 |
| Water Authority Costs | 1,288,505 |
| Regulatory Assessment | 5,286 |
| Tap Connection Fees | 76,897 |
| TOTAL OTHER EXPENDITURES | <u>\$ 1,437,346</u> |
| TOTAL EXPENDITURES | <u>\$ 3,434,777</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
INVESTMENTS
APRIL 30, 2019

| <u>Funds</u> | <u>Identification or Certificate Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> | <u>Accrued Interest Receivable at End of Year</u> |
|-------------------------------------|---|--------------------------|--------------------------|-----------------------------------|---|
| <u>GENERAL FUND</u> | | | | | |
| TexPool | XXXX0001 | Varies | Daily | \$ 462 | \$ - 0 - |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0002 | Varies | Daily | \$ 16,184 | \$ |
| Certificate of Deposit | XXXX1863 | 2.07% | 07/05/19 | 104,681 | 1,685 |
| Certificate of Deposit | XXXX0573 | 2.15% | 07/03/19 | 242,383 | 682 |
| TOTAL DEBT SERVICE FUND | | | | \$ 363,248 | \$ 2,367 |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| TexPool | XXXX0003 | Varies | Daily | \$ 369 | \$ - 0 - |
| TOTAL - ALL FUNDS | | | | \$ 364,079 | \$ 2,367 |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2019

| | Maintenance Taxes | | Debt Service Taxes | |
|--------------------------------------|-------------------|------------------|--------------------|-------------------|
| TAXES RECEIVABLE - MAY 1, 2018 | \$ | 55,049 | \$ | 140,140 |
| Adjustments to Beginning Balance | | <u>500</u> | \$ | <u>141,654</u> |
| | | \$ 55,549 | <u>1,514</u> | \$ 141,654 |
| Original 2018 Tax Levy | \$ | 811,347 | \$ | 1,983,294 |
| Adjustment to 2018 Tax Levy | | <u>77,617</u> | <u>888,964</u> | <u>2,173,024</u> |
| TOTAL TO BE ACCOUNTED FOR | | \$ 944,513 | | \$ 2,314,678 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | 37,499 | \$ | 96,358 |
| Current Year | | <u>854,103</u> | <u>891,602</u> | <u>2,184,165</u> |
| TAXES RECEIVABLE - APRIL 30, 2019 | | <u>\$ 52,911</u> | | <u>\$ 130,513</u> |
| TAXES RECEIVABLE BY YEAR: | | | | |
| 2018 | \$ | 34,861 | \$ | 85,217 |
| 2017 | | 11,354 | | 30,056 |
| 2016 | | 2,526 | | 6,686 |
| 2015 | | 2,169 | | 3,384 |
| 2014 and prior | | <u>2,001</u> | | <u>5,170</u> |
| TOTAL | \$ | <u>52,911</u> | \$ | <u>130,513</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED APRIL 30, 2019

| | 2018 | 2017 | 2016 | 2015 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 104,720,181 | \$ 99,189,689 | \$ 91,770,119 | \$ 90,590,110 |
| Improvements | 411,802,581 | 390,745,864 | 347,606,560 | 291,970,863 |
| Personal Property | 10,643,886 | 9,391,715 | 6,072,682 | 6,152,376 |
| Exemptions | <u>(33,297,613)</u> | <u>(31,921,124)</u> | <u>(31,404,042)</u> | <u>(9,101,317)</u> |
| TOTAL PROPERTY VALUATIONS | <u><u>\$ 493,869,035</u></u> | <u><u>\$ 467,406,144</u></u> | <u><u>\$ 414,045,319</u></u> | <u><u>\$ 379,612,032</u></u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.44 | \$ 0.45 | \$ 0.45 | \$ 0.39 |
| Maintenance | <u>0.18</u> | <u>0.17</u> | <u>0.17</u> | <u>0.25</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u><u>\$ 0.62</u></u> | <u><u>\$ 0.62</u></u> | <u><u>\$ 0.62</u></u> | <u><u>\$ 0.64</u></u> |
| ADJUSTED TAX LEVY* | <u><u>\$ 3,061,988</u></u> | <u><u>\$ 2,897,918</u></u> | <u><u>\$ 2,567,082</u></u> | <u><u>\$ 2,429,517</u></u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u><u>96.08 %</u></u> | <u><u>98.57 %</u></u> | <u><u>99.64 %</u></u> | <u><u>99.77 %</u></u> |

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on June 29, 1985.

See accompanying independent auditor’s report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

SERIES - 2010 REFUNDING

| Due During Fiscal Years Ending April 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|---|---------------------------------|---|---------------------|
| 2020 | \$ 25,000 | \$ 185,350 | \$ 210,350 |
| 2021 | 30,000 | 184,250 | 214,250 |
| 2022 | 30,000 | 183,050 | 213,050 |
| 2023 | 30,000 | 181,850 | 211,850 |
| 2024 | 30,000 | 180,650 | 210,650 |
| 2025 | 35,000 | 179,350 | 214,350 |
| 2026 | 35,000 | 177,950 | 212,950 |
| 2027 | 985,000 | 156,934 | 1,141,934 |
| 2028 | 1,035,000 | 115,272 | 1,150,272 |
| 2029 | 1,080,000 | 70,975 | 1,150,975 |
| 2030 | 1,130,000 | 24,013 | 1,154,013 |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| 2039 | | | |
| 2040 | | | |
| 2041 | | | |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| | <u>\$ 4,445,000</u> | <u>\$ 1,639,644</u> | <u>\$ 6,084,644</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

SERIES - 2012 REFUNDING

| Due During Fiscal Years Ending April 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|---|---------------------------------|---|----------------------|
| 2020 | \$ 50,000 | \$ 316,788 | \$ 366,788 |
| 2021 | 55,000 | 315,212 | 370,212 |
| 2022 | 55,000 | 313,563 | 368,563 |
| 2023 | 55,000 | 311,912 | 366,912 |
| 2024 | 55,000 | 310,263 | 365,263 |
| 2025 | 60,000 | 308,463 | 368,463 |
| 2026 | 60,000 | 306,513 | 366,513 |
| 2027 | 65,000 | 304,481 | 369,481 |
| 2028 | 65,000 | 302,369 | 367,369 |
| 2029 | 335,000 | 295,869 | 630,869 |
| 2030 | 345,000 | 284,819 | 629,819 |
| 2031 | 1,550,000 | 254,025 | 1,804,025 |
| 2032 | 1,600,000 | 202,437 | 1,802,437 |
| 2033 | 1,655,000 | 148,109 | 1,803,109 |
| 2034 | 1,715,000 | 91,241 | 1,806,241 |
| 2035 | 1,780,000 | 31,150 | 1,811,150 |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| 2039 | | | |
| 2040 | | | |
| 2041 | | | |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| | <u>\$ 9,500,000</u> | <u>\$ 4,097,214</u> | <u>\$ 13,597,214</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

SERIES - 2013 REFUNDING

| Due During Fiscal Years Ending April 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|---|---------------------------------|---|---------------------|
| 2020 | \$ 885,000 | \$ 227,925 | \$ 1,112,925 |
| 2021 | 910,000 | 201,000 | 1,111,000 |
| 2022 | 945,000 | 173,175 | 1,118,175 |
| 2023 | 970,000 | 139,600 | 1,109,600 |
| 2024 | 1,010,000 | 100,000 | 1,110,000 |
| 2025 | 980,000 | 60,200 | 1,040,200 |
| 2026 | 1,015,000 | 20,300 | 1,035,300 |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| 2039 | | | |
| 2040 | | | |
| 2041 | | | |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| | <u>\$ 6,715,000</u> | <u>\$ 922,200</u> | <u>\$ 7,637,200</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

S E R I E S - 2 0 1 6

| Due During Fiscal Years Ending April 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|---|---------------------------------|---|----------------------|
| 2020 | \$ 20,000 | \$ 344,394 | \$ 364,394 |
| 2021 | 50,000 | 343,344 | 393,344 |
| 2022 | 50,000 | 341,844 | 391,844 |
| 2023 | 50,000 | 340,344 | 390,344 |
| 2024 | 50,000 | 338,844 | 388,844 |
| 2025 | 50,000 | 337,094 | 387,094 |
| 2026 | 50,000 | 335,094 | 385,094 |
| 2027 | 50,000 | 333,094 | 383,094 |
| 2028 | 50,000 | 331,094 | 381,094 |
| 2029 | 50,000 | 329,187 | 379,187 |
| 2030 | 50,000 | 327,375 | 377,375 |
| 2031 | 50,000 | 325,562 | 375,562 |
| 2032 | 50,000 | 323,750 | 373,750 |
| 2033 | 50,000 | 321,937 | 371,937 |
| 2034 | 50,000 | 320,125 | 370,125 |
| 2035 | 50,000 | 318,313 | 368,313 |
| 2036 | 1,150,000 | 295,844 | 1,445,844 |
| 2037 | 1,225,000 | 249,780 | 1,474,780 |
| 2038 | 1,275,000 | 199,782 | 1,474,782 |
| 2039 | 1,350,000 | 146,437 | 1,496,437 |
| 2040 | 1,400,000 | 89,718 | 1,489,718 |
| 2041 | 1,475,000 | 30,422 | 1,505,422 |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| | <u>\$ 8,645,000</u> | <u>\$ 6,323,378</u> | <u>\$ 14,968,378</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

| S E R I E S - 2 0 1 8 | | | |
|---|---------------------------------|---|--------------|
| Due During Fiscal Years Ending April 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2020 | \$ | \$ 202,390 | \$ 202,390 |
| 2021 | | 169,050 | 169,050 |
| 2022 | | 169,050 | 169,050 |
| 2023 | | 169,050 | 169,050 |
| 2024 | | 169,050 | 169,050 |
| 2025 | | 169,050 | 169,050 |
| 2026 | | 169,050 | 169,050 |
| 2027 | | 169,050 | 169,050 |
| 2028 | | 169,050 | 169,050 |
| 2029 | | 169,050 | 169,050 |
| 2030 | | 169,050 | 169,050 |
| 2031 | | 169,050 | 169,050 |
| 2032 | | 169,050 | 169,050 |
| 2033 | | 169,050 | 169,050 |
| 2034 | | 169,050 | 169,050 |
| 2035 | | 169,050 | 169,050 |
| 2036 | | 169,050 | 169,050 |
| 2037 | | 169,050 | 169,050 |
| 2038 | | 169,050 | 169,050 |
| 2039 | | 169,050 | 169,050 |
| 2040 | | 169,050 | 169,050 |
| 2041 | | 169,050 | 169,050 |
| 2042 | 1,325,000 | 141,722 | 1,466,722 |
| 2043 | 1,380,000 | 86,794 | 1,466,794 |
| 2044 | 1,435,000 | 29,597 | 1,464,597 |
| | \$ 4,140,000 | \$ 4,010,553 | \$ 8,150,553 |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
LONG-TERM DEBT SERVICE REQUIREMENTS
APRIL 30, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending April 30 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|---|------------------------|-----------------------|--|
| 2020 | \$ 980,000 | \$ 1,276,847 | \$ 2,256,847 |
| 2021 | 1,045,000 | 1,212,856 | 2,257,856 |
| 2022 | 1,080,000 | 1,180,682 | 2,260,682 |
| 2023 | 1,105,000 | 1,142,756 | 2,247,756 |
| 2024 | 1,145,000 | 1,098,807 | 2,243,807 |
| 2025 | 1,125,000 | 1,054,157 | 2,179,157 |
| 2026 | 1,160,000 | 1,008,907 | 2,168,907 |
| 2027 | 1,100,000 | 963,559 | 2,063,559 |
| 2028 | 1,150,000 | 917,785 | 2,067,785 |
| 2029 | 1,465,000 | 865,081 | 2,330,081 |
| 2030 | 1,525,000 | 805,257 | 2,330,257 |
| 2031 | 1,600,000 | 748,637 | 2,348,637 |
| 2032 | 1,650,000 | 695,237 | 2,345,237 |
| 2033 | 1,705,000 | 639,096 | 2,344,096 |
| 2034 | 1,765,000 | 580,416 | 2,345,416 |
| 2035 | 1,830,000 | 518,513 | 2,348,513 |
| 2036 | 1,150,000 | 464,894 | 1,614,894 |
| 2037 | 1,225,000 | 418,830 | 1,643,830 |
| 2038 | 1,275,000 | 368,832 | 1,643,832 |
| 2039 | 1,350,000 | 315,487 | 1,665,487 |
| 2040 | 1,400,000 | 258,768 | 1,658,768 |
| 2041 | 1,475,000 | 199,472 | 1,674,472 |
| 2042 | 1,325,000 | 141,722 | 1,466,722 |
| 2043 | 1,380,000 | 86,794 | 1,466,794 |
| 2044 | 1,435,000 | 29,597 | 1,464,597 |
| | <u>\$ 33,445,000</u> | <u>\$ 16,992,989</u> | <u>\$ 50,437,989</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED APRIL 30, 2019

| Description | Original Bonds Issued | Bonds Outstanding May 1, 2018 |
|---|--|--|
| Harris County Municipal Utility District No. 196 Unlimited Tax Refunding Bonds - Series 2010 | \$ 4,680,000 | \$ 4,470,000 |
| Harris County Municipal Utility District No. 196 Unlimited Tax Refunding Bonds - Series 2012 | 9,865,000 | 9,550,000 |
| Harris County Municipal Utility District No. 196 Unlimited Tax Refunding Bonds - Series 2013 | 9,615,000 | 7,570,000 |
| Harris County Municipal Utility District No. 196 Unlimited Tax Bonds - Series 2016 | 8,645,000 | 8,645,000 |
| Harris County Municipal Utility District No. 196 Unlimited Tax Bonds - Series 2018 | <u>4,140,000</u> | <u> </u> |
| TOTAL | <u>\$ 36,945,000</u> | <u>\$ 30,235,000</u> |
| Bond Authority: | <u>Tax and</u> <u>Refunding Bonds</u> | <u>Recreational</u> <u>Facilities Bonds</u> |
| Amount Authorized by Voters | \$ 49,000,000 | \$ 3,000,000 |
| Less: New Money Bonds Issued | 40,905,000 | 2,500,000 |
| Less: Refunding Bonds Issued | <u>3,048,205</u> | <u> </u> |
| Remaining to be Issued | <u>\$ 5,046,795</u> | <u>\$ 500,000</u> |

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|--------------------|---------------------|---|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding April 30, 2019</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 25,000 | \$ 186,350 | \$ 4,445,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | 50,000 | 318,037 | 9,500,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | 855,000 | 254,025 | 6,715,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | | 344,694 | 8,645,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| <u>4,140,000</u> | | | <u>4,140,000</u> | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| <u>\$ 4,140,000</u> | <u>\$ 930,000</u> | <u>\$ 1,103,106</u> | <u>\$ 33,445,000</u> | |

Debt Service Fund cash and investment balances as of April 30, 2019: \$ 2,813,440

Average annual debt service payment (principal and interest)
for remaining term of all debt: \$ 2,017,520

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

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 891,602 | \$ 782,494 | \$ 693,724 |
| Water Service | 839,392 | 846,952 | 787,629 |
| Wastewater Service | 382,931 | 368,508 | 351,865 |
| Water Authority Fees | 1,271,408 | 1,144,160 | 1,035,594 |
| Connection, Inspection and Reconnect Fees | 126,904 | 46,020 | 183,273 |
| Sales Tax Revenues | 77,561 | 64,005 | 48,260 |
| Penalty and Interest | 28,293 | 20,581 | 21,728 |
| Investment and Miscellaneous Revenues | 32,678 | 28,009 | 27,356 |
| TOTAL REVENUES | \$ 3,650,769 | \$ 3,300,729 | \$ 3,149,429 |
| EXPENDITURES | | | |
| Professional Fees | \$ 204,822 | \$ 249,377 | \$ 182,382 |
| Contracted Services | 891,940 | 867,552 | 820,650 |
| Purchased Wastewater Service | 279,329 | 268,818 | 275,955 |
| Utilities | 56,968 | 66,216 | 66,796 |
| Water Authority Costs | 1,288,505 | 1,237,839 | 1,106,032 |
| Repairs and Maintenance | 438,466 | 470,472 | 449,382 |
| Other | 257,747 | 207,197 | 288,942 |
| Capital Outlay | 17,000 | | 10,880 |
| TOTAL EXPENDITURES | \$ 3,434,777 | \$ 3,367,471 | \$ 3,201,019 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 215,992 | \$ (66,742) | \$ (51,590) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In(Out) | \$ 53,116 | \$ - 0 - | \$ - 0 - |
| NET CHANGE IN FUND BALANCE | \$ 269,108 | \$ (66,742) | \$ (51,590) |
| BEGINNING FUND BALANCE | 2,484,129 | 2,550,871 | 2,602,461 |
| ENDING FUND BALANCE | \$ 2,753,237 | \$ 2,484,129 | \$ 2,550,871 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 940,756 | \$ 963,254 | 24.4 % | 23.7 % | 22.0 % | 28.8 % | 30.5 % |
| 768,115 | 709,892 | 23.0 | 25.7 | 25.0 | 23.5 | 22.5 |
| 348,018 | 334,541 | 10.5 | 11.2 | 11.2 | 10.7 | 10.6 |
| 928,160 | 803,670 | 34.8 | 34.7 | 32.9 | 28.4 | 25.4 |
| 189,378 | 264,771 | 3.5 | 1.4 | 5.8 | 5.8 | 8.4 |
| 42,890 | 39,059 | 2.1 | 1.9 | 1.5 | 1.3 | 1.2 |
| 21,526 | 28,475 | 0.8 | 0.6 | 0.7 | 0.7 | 0.9 |
| 26,798 | 18,415 | 0.9 | 0.8 | 0.9 | 0.8 | 0.5 |
| <u>\$ 3,265,641</u> | <u>\$ 3,162,077</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 153,878 | \$ 150,673 | 5.6 % | 7.6 % | 5.8 % | 4.7 % | 4.8 % |
| 791,358 | 756,502 | 24.4 | 26.3 | 26.1 | 24.2 | 23.9 |
| 274,781 | 268,438 | 7.7 | 8.1 | 8.8 | 8.4 | 8.5 |
| 62,177 | 57,311 | 1.6 | 2.0 | 2.1 | 1.9 | 1.8 |
| 978,789 | 864,950 | 35.3 | 37.5 | 35.1 | 30.0 | 27.4 |
| 325,445 | 284,313 | 12.0 | 14.3 | 14.3 | 10.0 | 9.0 |
| 254,153 | 171,485 | 7.1 | 6.3 | 9.2 | 7.8 | 5.4 |
| 106,640 | 21,265 | 0.5 | | 0.3 | 3.3 | 0.7 |
| <u>\$ 2,947,221</u> | <u>\$ 2,574,937</u> | <u>94.2 %</u> | <u>102.1 %</u> | <u>101.7 %</u> | <u>90.3 %</u> | <u>81.5 %</u> |
| <u>\$ 318,420</u> | <u>\$ 587,140</u> | <u>5.8 %</u> | <u>(2.1) %</u> | <u>(1.7) %</u> | <u>9.7 %</u> | <u>18.5 %</u> |
| <u>\$ - 0 -</u> | <u>\$ 1,193,810</u> | | | | | |
| \$ 318,420 | \$ 1,780,950 | | | | | |
| 2,284,041 | 503,091 | | | | | |
| <u>\$ 2,602,461</u> | <u>\$ 2,284,041</u> | | | | | |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|-----------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 2,184,165 | \$ 2,069,655 | \$ 1,821,565 |
| Penalty and Interest | 50,652 | 17,696 | 11,545 |
| Miscellaneous Revenues | <u>14,032</u> | <u>9,014</u> | <u>6,190</u> |
| TOTAL REVENUES | <u>\$ 2,248,849</u> | <u>\$ 2,096,365</u> | <u>\$ 1,839,300</u> |
| EXPENDITURES | | | |
| Tax Collection Expenditures | \$ 76,301 | \$ 58,147 | \$ 50,425 |
| Debt Service Principal | 930,000 | 905,000 | 2,165,000 |
| Debt Service Interest and Fees | <u>1,106,356</u> | <u>1,193,203</u> | <u>846,072</u> |
| TOTAL EXPENDITURES | <u>\$ 2,112,657</u> | <u>\$ 2,156,350</u> | <u>\$ 3,061,497</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>\$ 136,192</u> | <u>\$ (59,985)</u> | <u>\$ (1,222,197)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In(Out) | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ 1,240,000</u> |
| NET CHANGE IN FUND BALANCE | \$ 136,192 | \$ (59,985) | \$ 17,803 |
| BEGINNING FUND BALANCE | <u>2,659,320</u> | <u>2,719,305</u> | <u>2,701,502</u> |
| ENDING FUND BALANCE | <u>\$ 2,795,512</u> | <u>\$ 2,659,320</u> | <u>\$ 2,719,305</u> |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | <u>2,092</u> | <u>1,986</u> | <u>1,919</u> |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | <u>1,992</u> | <u>1,890</u> | <u>1,823</u> |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|-----------------|-----------------|-----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 1,467,523 | \$ 1,317,872 | 97.1 % | 98.8 % | 99.1 % | 98.8 % | 97.0 % |
| 12,187 | 15,451 | 2.3 | 0.8 | 0.6 | 0.8 | 1.2 |
| <u>5,647</u> | <u>25,112</u> | <u>0.6</u> | <u>0.4</u> | <u>0.3</u> | <u>0.4</u> | <u>1.8</u> |
| <u>\$ 1,485,357</u> | <u>\$ 1,358,435</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 51,701 | \$ 51,008 | 3.4 % | 2.8 % | 2.7 % | 3.5 % | 3.8 % |
| 885,000 | 925,000 | 41.4 | 43.2 | 117.7 | 59.6 | 68.1 |
| <u>903,457</u> | <u>1,002,073</u> | <u>49.2</u> | <u>56.9</u> | <u>46.0</u> | <u>60.8</u> | <u>73.8</u> |
| <u>\$ 1,840,158</u> | <u>\$ 1,978,081</u> | <u>94.0 %</u> | <u>102.9 %</u> | <u>166.4 %</u> | <u>123.9 %</u> | <u>145.7 %</u> |
| <u>\$ (354,801)</u> | <u>\$ (619,646)</u> | <u>6.0 %</u> | <u>(2.9) %</u> | <u>(66.4) %</u> | <u>(23.9) %</u> | <u>(45.7) %</u> |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ (354,801) | \$ (619,646) | | | | | |
| <u>3,056,303</u> | <u>3,675,949</u> | | | | | |
| <u>\$ 2,701,502</u> | <u>\$ 3,056,303</u> | | | | | |
| <u>1,823</u> | <u>1,767</u> | | | | | |
| <u>1,716</u> | <u>1,688</u> | | | | | |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2019

District Mailing Address - Harris County Municipal Utility District No. 196
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 652-6500

| Board Members | Term of Office (Elected or Appointed) | Fees of office for the year ended April 30, 2019 | Expense reimbursements for the year ended April 30, 2019 | Title |
|----------------------|--|--|--|----------------|
| Roy R. Behrens, Jr. | 05/16 05/20 (Elected) | \$ 3,000 | \$ 3,491 | President |
| Mark E. Wyckoff | 05/16 05/20 (Elected) | \$ 2,100 | \$ 453 | Vice President |
| Parke B. Patterson | 05/18 05/22 (Elected) | \$ 3,000 | \$ 2,790 | Secretary |
| Paul May, Jr. | 05/18 05/22 (Elected) | \$ 2,550 | \$ 1,992 | Director |
| Jason Johnson | 05/16 05/20 (Elected) | \$ 2,850 | \$ 1,370 | Director |

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

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

The limit on Fees of Office that a Director may receive during a fiscal year is set by Board Resolution on July 18, 2004. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 196
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
APRIL 30, 2019

| Consultants: | <u>Date Hired</u> | <u>District Fees for the year ended April 30, 2019</u> | <u>Wastewater Treatment Facilities Fees for the year ended April 30, 2019</u> | <u>Title</u> |
|--|-------------------|--|---|---|
| Smith, Murdaugh, Little & Bonham, L.L.P. | 01/20/82 | \$ 124,564 | \$ -0- | General Counsel/ Bond Counsel/ Delinquent Tax Attorney |
| | | \$ 105,792 | \$ -0- | |
| | 02/19/97 | \$ 19,329 | \$ -0- | |
| McCall Gibson Swedlund Barfoot PLLC | 04/23/97 | \$ 15,750 | \$ 3,000 | Audit Related Bond Related |
| | | \$ 10,500 | \$ -0- | |
| Myrtle Cruz, Inc. | 06/05/85 | \$ 22,902 | \$ 6,616 | Bookkeeper |
| Koehn & Associates Engineers, Inc. | 01/20/82 | \$ 207,322 | \$ -0- | Engineer |
| Rathmann & Associates, L.P. | 05/21/97 | \$ 84,300 | \$ -0- | Financial Advisor |
| Bill Russell | 12/11/11 | \$ -0- | \$ -0- | Investment Officer |
| Water District Management Company, Inc. | 11/19/14 | \$ 434,750 | \$ 92,028 | Operator |
| Michael Arterburn | 04/20/11 | \$ 29,913 | \$ -0- | Tax Assessor/ Collector |

See accompanying independent auditor's report.

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND
INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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

