

**OFFICIAL STATEMENT DATED MAY 13, 2020**

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61 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. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BE DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS—Qualified Tax Exempt Obligations.”

**NEW ISSUE-Book-Entry Only**

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

**\$2,585,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
 (A political subdivision of the State of Texas located within Harris County)  
 UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**Interest accrues from June 1, 2020**

**Due: September 1, as shown below**

Principal of the Bonds will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds will accrue from June 1, 2020, will be payable on March 1 and September 1 of each year commencing September 1, 2020, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

The Bonds will be registered and delivered only 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. So long as Cede & Co. is the registered owner of the Bonds, Beneficial Owners (as defined herein under “BOOK-ENTRY-ONLY SYSTEM”) of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See “BOOK-ENTRY-ONLY SYSTEM.” The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas.



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

**MATURITY SCHEDULE**

| Due<br>(September 1) | Principal<br>Amount | Interest<br>Rate | Initial<br>Reoffering<br>Yield (a) | CUSIP<br>Number (b) | Due<br>(September 1) | Principal<br>Amount | Interest<br>Rate | Initial<br>Reoffering<br>Yield (a) | CUSIP<br>Number (b) |
|----------------------|---------------------|------------------|------------------------------------|---------------------|----------------------|---------------------|------------------|------------------------------------|---------------------|
| 2021                 | \$ 5,000            | 4.000%           | 1.400%                             | 414926 JD8          | 2029                 | \$ 230,000 (c)      | 2.000%           | 2.060%                             | 414926 JM8          |
| 2022                 | 160,000             | 4.000            | 1.450                              | 414926 JE6          | 2030                 | 225,000 (c)         | 2.000            | 2.090                              | 414926 JN6          |
| 2023                 | 160,000             | 4.000            | 1.500                              | 414926 JF3          | 2031                 | 225,000 (c)         | 2.000            | 2.210                              | 414926 JP1          |
| 2024                 | 160,000             | 4.000            | 1.610                              | 414926 JG1          | 2032                 | 230,000 (c)         | 2.000            | 2.300                              | 414926 JQ9          |
| 2025                 | 240,000             | 4.000            | 1.700                              | 414926 JH9          | 2033                 | 235,000 (c)         | 2.250            | 2.380                              | 414926 JR7          |
| 2026                 | 240,000             | 4.000            | 1.750                              | 414926 JJ5          |                      |                     |                  |                                    |                     |

\$475,000 Term Bonds due September 1, 2028 (c), 414926 JL0 (b), 2.000% Interest Rate, 2.030% Yield (a)

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 61 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. The Bonds are subject to special investment considerations described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Marks Richardson PC, Bond Counsel, Houston, Texas. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about June 23, 2020.

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### USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, 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 Marks Richardson PC, Bond Counsel, 3700 Buffalo Speedway, Suite 830, Houston, Texas, 77098 upon payment of the costs of duplication therefor.

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

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

## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

*Description and Location...* The District is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, a predecessor to the Texas Commission on Environmental Quality (the “TCEQ”) on May 2, 1973, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District currently consists of approximately 535 acres of land. The District is located approximately 25 miles west of the central downtown business district of the City of Houston and 5 miles east of the City of Katy, Texas and wholly within the boundaries of the Katy Independent School District and the extraterritorial jurisdiction of the City of Houston (the “City”). A majority of the District is bordered on the south by Interstate Highway 10, on the east by Mason Road, and on the north by Franz Road. The remaining land within the District consists of several tracts located north of Franz Road and east and west of Mason Road, which comprise over 100 acres. See “THE DISTRICT.”

*Status of Development...* Approximately 427 acres of the District are part of the Williamsburg Project, a 2,600 acre master planned community located adjacent to and north of Interstate Highway 10, approximately 25 miles west of the City of Houston and approximately 5 miles east of the City of Katy, Texas. Single family development in the District includes Williamsburg Settlement, Sections 1, 2 and a portion of Section 3, which in the aggregate contain approximately 172 acres developed into 556 single-family residential lots. As of April 29, 2020, the District contained 556 completed homes (553 of which are occupied). The average home value for 2019 is approximately \$225,000. There is no current single-family development activity in the District.

The District also provides service to approximately 161 acres of land for commercial usage. Taxable improvements constructed on this acreage include: the Westside Office Park consisting of a 93,000 square foot midrise office building occupied by DNV GL (formerly Det Norske Veritas); four warehouse/industrial buildings, approximately 45,000 square feet each; one 45,600 square foot building with various commercial businesses as tenants; one 101,300 square foot building for warehouse/industrial use; an office building for Safekick; a 180,000 square foot office building/parking structure for Newpark Drilling Fluid LLC; and a 30,000 square foot office/warehouse for Well-Tec; a 89,000 square foot data center located on approximately 19 acres; the Williamsburg Center, a small retail shopping center consisting of several retail and service establishments; a small shopping center consisting of a convenience store and a dry cleaner; an office/warehouse park, consisting of two 8,000 square foot buildings and an approximate 375,000 square foot commercial/industrial warehouse building located on approximately 40 acres. An apartment complex (120-units) for seniors is located on approximately 12 acres within the District. In addition, a portion of the Luxe at Katy (formerly known as Remington Katy) apartments (105 units) is located on 4 acres.

The District has a recreation center which includes swimming pools, 4 tennis courts, basketball courts, a playground area, a meeting room facility and adjacent parking facilities on approximately 11 acres in the District and approximately 5 acres are intended to be developed as a park site.

Additionally, the District contains approximately 122 acres of undeveloped land, which have not been provided with water, wastewater and sanitary sewer facilities. The majority of this acreage is owned by Westside Ventures, Ltd. and is located in the Defined Area, defined below. See “THE DEFINED AREA” and “TAX DATA—Principal Taxpayers. The remaining 46 acres in the District are contained in easements, rights of way and plant sites.

See “THE DISTRICT—Status of Development.”

*Defined Area...*

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, and Chapter 8002, Texas Special District Local Laws Code, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On August 16, 2017, the District approved the creation of a defined area encompassing approximately 92.8448 acres within the District (the “Defined Area”), approved a final engineering report and plan for improvements in the Defined Area (the “Improvement Plan), and issued an order calling a bond election and maintenance and operation tax election within the Defined Area (the “Defined Area Election”).

The Defined Area Election was held on November 7, 2017 and voters within the Defined Area approved the following: a proposition on the issuance of the bonds of the District for the provision of recreational facilities and refunding bonds in the maximum aggregate principal amount of \$18,300,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of the bonds of the District for the provision of a waterworks system, sanitary sewer system, and a drainage and storm sewer system and refunding bonds in the maximum aggregate principal amount of \$131,000,000 and the levy of taxes in payment of such bonds for the Defined Area; and a proposition on the levy of an operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

The Bonds being sold are not related to the Defined Area.

All land in the Defined Area is owned by Westside Ventures, Ltd. The District is not aware of any plans to develop such acreage. See “TAX DATA—Principal Taxpayers” and “THE DEFINED AREA”

#### **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. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds. Such a reduction in property values may also require the District to increase its ad valorem tax rate for operations and maintenance expenses and/or its utility rates charged to its utility customers.

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

## **POTENTIAL EFFECTS OF OIL PRICE DECLINES ON THE HOUSTON AREA**

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District or negatively affect the ability of property owners and customers of the District to pay their ad valorem taxes and utility bills from the District. As previously stated, 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. Such a reduction in property values may also require the District to increase its ad valorem tax rate for operations and maintenance expenses and/or its utility rates charged to its utility customers.

## **HURRICANE HARVEY**

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

According to Municipal Operations & Consulting, Inc. (the “Operator”), the District's System (as defined herein) did not sustain any material damage, and there was no interruption of water and sewer service as a result of Hurricane Harvey. According to A & S Engineers, Inc., Houston, Texas. (the “Engineer”), after investigation, it appeared that approximately 8 homes within the District experienced water incursions or other significant damage as a result of Hurricane Harvey. No commercial improvements within the District were affected.

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, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

## THE BONDS

|  |  |
|--|--|
| <i>The Issuer...</i>                       | Harris County Municipal Utility District No. 61 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”   |
| <i>The Issue...</i>                        | \$2,585,000 Unlimited Tax Refunding Bonds, Series 2020, (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”), including the pricing certificate authorized thereby (collectively, the “Bond Order”). Interest on the Bonds will accrue from June 1, 2020, and will be payable on March 1 and September 1 of each year commencing September 1, 2020, until maturity or prior redemption. The Bonds mature serially on September 1 in each of the years from 2021 through 2026, both inclusive, and 2029 through 2033, both inclusive, and as term bonds maturing on September 1, 2028 (the “Term Bonds”) in the respective principal amounts and bear interest at the rates for each maturity shown on the cover page hereof. The Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the District, in whole or, from time to time, in part, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. The Bonds will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.” |
| <i>Book-Entry Only...</i>                  | The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. 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 “BOOK-ENTRY-ONLY SYSTEM.”  |
| <i>Use of Proceeds...</i>                  | Proceeds from the sale of the Bonds and lawfully available debt service funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$2,520,000 principal amount of the Outstanding Bonds (as hereinafter defined) in order to achieve net savings in the District’s annual debt service expense. After issuance of the Bonds, \$13,120,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”  |
| <i>Authority for Issuance...</i>           | The Bonds are the second series of bonds authorized by the District’s voters for the purpose of refunding outstanding bonds. The Bonds are issued by the District pursuant to said election and the terms and provisions of the Bond Order (as hereinafter defined), the Texas Constitution, the general laws of the State of Texas, particularly Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, and City of Houston Ordinance No. 97-416. See “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”  |
| <i>Source of Payment...</i>                | The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District (see “TAX PROCEDURES”). The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or entity other than the District. See “THE BONDS—Source of and Security for Payment.”   |
| <i>Payment Record...</i>                   | The District has previously issued five series of combination waterworks and sewer system unlimited tax and revenue bonds, four series of unlimited tax bonds, one series of unlimited tax refunding bonds and one series of unlimited tax park bonds. As of March 1, 2020, the District has an aggregate of \$15,290,000 principal amount of unlimited tax bonds outstanding and \$350,000 in principal amount of waterworks and sanitary sewer system combination unlimited tax and revenue bonds outstanding (collectively, the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on any bonds issued by the District.  |
| <i>Qualified Tax-Exempt Obligations...</i> | The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”   |

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|--|---|
| <i>Municipal Bond Insurance and Municipal Bond Rating...</i> | It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service ("Moody's") will assign municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM"). Moody's has also assigned an underlying credit rating of "A3" on the Bonds. See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE." |
| <i>Bond Counsel...</i>                                       | Marks Richardson PC, Bond Counsel, Houston, Texas. See "MANAGEMENT" and "LEGAL MATTERS."  |
| <i>Underwriter's Counsel...</i>                              | McCall, Parkhurst & Horton L.L.P., Houston, Texas.  |
| <i>Paying Agent/Registrar...</i>                             | The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."  |
| <i>Escrow Agent...</i>                                       | The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "PLAN OF FINANCING—Escrow Agreement."   |
| <i>Paying Agent/Registrar on Refunded Bonds...</i>           | Wells Fargo Bank, N.A., Minneapolis, Minnesota.   |
| <i>Verification Agent...</i>                                 | Public Finance Partners LLC, Rockford, Minnesota.   |

#### **INVESTMENT CONSIDERATIONS**

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "INVESTMENT CONSIDERATIONS."

## SELECTED FINANCIAL INFORMATION

|  |                     |     |
|--|---------------------|-----|
| 2019 Certified Taxable Assessed Valuation .....  | \$390,008,991       | (a) |
| Gross Direct Debt Outstanding .....  | \$15,705,000        | (b) |
| Estimated Overlapping Debt .....   | <u>18,901,084</u>   | (c) |
| Gross Direct Debt and Estimated Overlapping Debt .....                                     | <u>\$34,606,084</u> |     |
| Ratio of Gross Direct Debt to:   |                     |     |
| 2019 Certified Taxable Assessed Valuation .....  | 4.03%               |     |
| Ratio of Gross Direct Debt and Estimated Overlapping Debt to:                              |                     |     |
| 2019 Certified Taxable Assessed Valuation .....  | 8.87%               |     |
| 2019 Debt Service Tax Rate .....   | \$0.365             |     |
| 2019 Maintenance Tax Rate .....  | <u>0.115</u>        |     |
| 2019 Total Tax Rate .....  | <u>\$0.480</u>      |     |
| Average percentage of total tax collections (2015-2019) .....                              | 99.73%              |     |
| Average Annual Debt Service Requirement (2020-2042) .....                                  | \$928,093           | (d) |
| Maximum Annual Debt Service Requirement (2021) .....                                       | \$1,277,056         | (d) |
| Tax Rates Required to Pay Average Annual Debt Service (2020-2042) at a 95% Collection Rate |                     |     |
| Based upon 2019 Certified Taxable Assessed Valuation .....                                 | \$0.26              | (d) |
| Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate      |                     |     |
| Based upon 2019 Certified Taxable Assessed Valuation .....                                 | \$0.35              | (d) |
| Water Connections as of April 29, 2020 (e):  |                     |     |
| Single-family residential - active .....   | 553                 |     |
| Single-family residential - vacant .....   | 3                   |     |
| Multi-Family (225 units) .....   | 8                   |     |
| Commercial .....   | 35                  |     |
| Other .....  | <u>26</u>           |     |
| Total .....  | <u>632</u>          |     |

Area of District — 535 acres  
Estimated 2020 population — 2,389 (f)

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- (a) As certified by the Harris County Appraisal District (the “Appraisal District”).
  - (b) After issuance of the Bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”
  - (c) See “ESTIMATED OVERLAPPING DEBT” and “—Overlapping Taxes.”
  - (d) See “FINANCIAL STATEMENT—Debt Service Requirements” and “TAX DATA—Tax Adequacy Debt Service.”
  - (e) See “THE DISTRICT—Status of Development.”
  - (f) Based upon 3.5 persons per occupied single-family residence and 2 persons per multi-family residence.



## OFFICIAL STATEMENT

**\$2,585,000**

### **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61** *(A political subdivision of the State of Texas located within Harris County)*

#### **UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 61 (the “District”) of its \$2,585,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, particularly chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and an order authorizing the issuance of the Bonds, including the pricing certificate authorized thereby (collectively, the “Bond Order”), adopted by the Board of Directors of the District (the “Board”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District c/o Marks Richardson PC, 3700 Buffalo Speedway, Suite 830, Houston, Texas, 77098, upon payment of the cost of duplication.

### **PLAN OF FINANCING**

#### **Purpose**

At a bond election held within the District on May 2, 1992, voters of the District authorized a total of \$12,000,000 in bonds for the purpose of refunding outstanding bonds of the District. The Bonds constitute the second issuance of refunding bonds from such authorization. The District has previously issued five series of combination waterworks and sewer system unlimited tax and revenue bonds, four series of unlimited tax bonds, one series of unlimited tax refunding bonds and one series of unlimited tax park bonds. As of March 1, 2020, the District has an aggregate of \$15,290,000 principal amount of unlimited tax bonds outstanding and \$350,000 in principal amount of waterworks and sanitary sewer system combination unlimited tax and revenue bonds outstanding (collectively, the “Outstanding Bonds”). See “THE BONDS—Issuance of Additional Debt.”

The proceeds of the Bonds and lawfully available debt service funds are being used to refund a portion of the District’s Outstanding Bonds totaling \$2,520,000 (collectively, the “Refunded Bonds”) in order to reduce the District’s debt service expense and result in net present value savings. Such funds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” in this section. A total of \$13,120,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “FINANCIAL STATEMENT—Outstanding Bonds” and “—Debt Service Requirements.”

**Refunded Bonds**

The following table lists the principal amounts and maturity dates of the Refunded Bonds and the Redemption Date on which the Refunded Bonds will be redeemed.

| Maturity Date<br>September 1 | Series<br>2012      |     |
|------------------------------|---------------------|-----|
| 2022                         | \$ 150,000          | (a) |
| 2023                         | 150,000             | (a) |
| 2024                         | 150,000             | (b) |
| 2025                         | 225,000             | (b) |
| 2026                         | 225,000             | (c) |
| 2027                         | 225,000             | (c) |
| 2028                         | 225,000             | (d) |
| 2029                         | 225,000             | (d) |
| 2030                         | 225,000             | (e) |
| 2031                         | 230,000             | (e) |
| 2032                         | 240,000             | (f) |
| 2033                         | 250,000             | (f) |
|                              | <u>\$ 2,520,000</u> |     |

Redemption Date: September 1, 2020

- (a) Represents term bonds in the total principal amount of \$300,000, scheduled to mature on September 1, 2023.
- (b) Represents term bonds in the total principal amount of \$375,000, scheduled to mature on September 1, 2025.
- (c) Represents term bonds in the total principal amount of \$450,000, scheduled to mature on September 1, 2027.
- (d) Represents term bonds in the total principal amount of \$450,000, scheduled to mature on September 1, 2029.
- (e) Represents term bonds in the total principal amount of \$455,000, scheduled to mature on September 1, 2031.
- (f) Represents term bonds in the total principal amount of \$490,000, scheduled to mature on September 1, 2033.

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, and lawfully available debt service funds, will be applied as follows:

|   |                       |
|---|-----------------------|
| Sources of Funds:                                     |                       |
| Principal Amount of the Bonds.....                    | \$2,585,000.00        |
| Net Premium on the Bonds .....                        | 76,079.55             |
| Transfer from Debt Service Fund .....                 | 32,000.00             |
| Total Sources of Funds.....                           | <u>\$2,693,079.55</u> |
| Uses of Funds:  |                       |
| Deposit to Escrow Fund.....                           | \$2,567,772.56        |
| Issuance Expenses and Underwriters' Discount (a)..... | 125,306.99            |
| Total Uses of Funds.....                              | <u>\$2,693,079.55</u> |

- (a) Includes municipal bond insurance premium.

## **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 redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the “Escrow Agent”).

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

## **THE BONDS**

### **General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description**

The Bonds will be dated June 1, 2020, with interest payable on September 1, 2020, and on each March 1 and September 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds initially accrues from June 1, 2020, and thereafter, from the most recent Interest Payment Date. The Bonds mature on March 1 in each of the years and in the principal amounts and accrue interest at the rates shown under “MATURITY SCHEDULE” on the cover page hereof. The Bonds are issued in fully registered form only in principal denominations of \$5,000 or any integral multiple of \$5,000 for any one stated maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### **Authority for Issuance**

At a bond election held within the District on May 2, 1992, voters of the District authorized the issuance of \$12,000,000 principal amount of unlimited tax refunding bonds. The District has previously issued five series of combination waterworks and sewer system unlimited tax and revenue bonds, four series of unlimited tax bonds, one series of unlimited tax refunding bonds and one series of unlimited tax park bonds. As of March 1, 2020, the District has an aggregate of \$15,290,000 principal amount of unlimited tax bonds outstanding (excluding the Bonds) and \$350,000 in principal amount of waterworks and sanitary sewer system combination unlimited tax and revenue bonds outstanding (collectively, the “Outstanding Bonds”). The Bonds are issued by the District pursuant to said election and to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207 of the Texas Government Code, as amended; and City of Houston Ordinance No. 97-416.

**Source of and Security for Payment**

The Bonds, together with the Remaining Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “TAX PROCEDURES.” Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

**Funds**

The Bond Order confirms the establishment of the District’s Bond Fund (the “Bond Fund”), which Bond Fund was created and established pursuant to the orders of the Board of Directors of the District authorizing the issuance of its previously issued bonds. Accrued interest on the Bonds will be deposited from the proceeds of the sale of the Bonds into the Bond Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Remaining Outstanding Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Remaining Outstanding Bonds and any of the District’s duly authorized additional bonds payable in whole or in part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

**Record Date**

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

**Redemption Provisions**

*Optional Redemption:* The Bonds maturing on or after September 1, 2027 are subject to redemption at the option of the District prior to their maturity dates, in whole or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption.

If fewer than all of the Bonds are optionally redeemed at any time, the maturities and amounts of Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 in principal series and amount, and if fewer than all of the Bonds of a given maturity are selected to be redeemed, the specific Bonds within a maturity shall be selected by lot or other customary method (or by the DTC in accordance with its procedures while the Bonds are in book-entry-only form).

*Mandatory Redemption:* The Term Bonds due on September 1, 2028 (the “Term Bonds”) are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

| <b>\$475,000 Term Bonds</b>      |                         |
|----------------------------------|-------------------------|
| <b>Due September 1, 2028</b>     |                         |
| <b>Mandatory Redemption Date</b> | <b>Principal Amount</b> |
| 2027                             | \$ 240,000              |
| 2028 (maturity)                  | 235,000                 |

The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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

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

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

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK- ENTRY-ONLY SYSTEM."

### **Registration**

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

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

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

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

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

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

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

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

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

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ (where required), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of a total of \$12,000,000 principal amount of unlimited tax refunding bonds, \$7,685,000 principal amount of combination unlimited tax and revenue bonds and \$35,000,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, and \$14,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$8,833,785.07 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District authorized but unissued, \$11,625,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities authorized but unissued and \$20,055,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities authorized but unissued.

At the Defined Area Election held on November 7, 2017 voters within the Defined Area approved the following: a proposition on the issuance of the bonds of the District for the provision of recreational facilities and refunding bonds in the maximum aggregate principal amount of \$18,300,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of the bonds of the District for the provision of a waterworks system, sanitary sewer system, and a drainage and storm sewer system and refunding bonds in the maximum aggregate principal amount of \$131,000,000 and the levy of taxes in payment of such bonds for the Defined Area; and a proposition on the levy of an operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area. See “THE BONDS—Authority for Issuance,” “THE DISTRICT—General,” and “DEFINED AREA.”

The Bonds being sold are not related to the Defined Area.

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

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”); and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

### **Financing Road Facilities**

Pursuant to Chapter 8002, Texas Special District Local Laws Code, the District is authorized to develop and finance with property taxes certain road facilities. Before the District issues bonds supported by property taxes to finance road facilities, the District must receive the authorization of the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. To date, the District's voters have not authorized the District to issue such bonds. However, at the Defined Area Election held on November 7, 2017 voters within the Defined Area approved a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area.

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

### **Financing Recreational Facilities**

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

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At a bond election held within the District on November 8, 2016, the voters of the District authorized the issuance of a total of \$14,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities. The District currently has \$11,625,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities authorized but unissued.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

### **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District to be annexed whereby the qualified voters of the District to be annexed approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Remaining Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. 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 attempt to 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. Under the terms of the SPA (as hereinafter defined under "THE DISTRICT—Strategic Partnership Agreement") between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "THE DISTRICT—Strategic Partnership Agreement." The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

### **Strategic Partnership Agreement**

The District has entered into a Strategic Partnership Agreement ("SPA") with the City of the Houston (the "City") whereby the tracts of land containing commercial development are annexed into the City for the limited purpose of applying certain of the City's Planning, Zoning, Health and Safety Ordinances to the commercial businesses. 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 paid to the District under the SPA are not pledged to the payment of the Bonds, but are lawfully available for the payment of the Bonds.

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 City Council of the City. Under the SPA, the City agrees that it will not annex all or part of the District for a period of thirty years from the date of execution of the SPA (April 11, 2003).

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.

## **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See “INVESTMENT CONSIDERATIONS—Registered Owners’ Remedies and Bankruptcy Limitations.”

## **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) for obligations of the District being discharged, or certain commercial bank or trust companies designated in the proceedings authorizing such discharge, 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, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall 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. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

There is no assurance that the current law will not be changed in 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 currently permitted under Texas law.



## BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the Texas Water Rights Commission, a predecessor to the TCEQ, dated May 2, 1973, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities.

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

### **Description and Location**

The District is located approximately 25 miles west of the central downtown business district of the City of Houston and 5 miles east of the City of Katy, Texas and wholly within the boundaries of the Katy Independent School District and the extraterritorial jurisdiction of the City of Houston (the "City"). A majority of the District is bordered on the south by Interstate Highway 10, on the east by Mason Road, and on the north by Franz Road. The remaining land within the District consists of several tracts located north of Franz Road and east and west of Mason Road, which comprise over 100 acres.

### **Status of Development**

Approximately 427 acres of the District are part of the Williamsburg Project, a 2,600 acre master planned community located adjacent to and north of Interstate Highway 10, approximately 25 miles west of the City of Houston and approximately 5 miles east of the City of Katy, Texas. Water, sanitary sewer and drainage facilities have been constructed to serve approximately 288 acres of land in the District. Single family development includes Williamsburg Settlement, Sections 1, 2 and a portion of Section 3, which in the aggregate contain approximately 172 acres developed into 556 single-family residential lots. Homebuilding in the District began in 1973 and as of April 29, 2020, the District contained 556 completed homes (553 of which are occupied). The average home value for 2019 is \$225,000. There is no current single-family development activity in the District.

The District also provides service to approximately 161 acres of land for commercial usage. Taxable improvements constructed on this acreage include: the Westside Office Park consisting of a 93,000 square foot midrise office building occupied by DNV GL (formerly Det Norske Veritas); four warehouse/industrial buildings, approximately 45,000 square feet each; one 45,600 square foot building with various commercial businesses as tenants; one 101,300 square foot building for warehouse/industrial use; an office building for Safekick; a 180,000 square foot office building/parking structure for Newpark Drilling Fluid LLC; and a 30,000 square foot office/warehouse for Well-Tec; a 89,000 square foot data center located on approximately 19 acres; the Williamsburg Center, a small retail shopping center consisting of several retail and service establishments; a small shopping center consisting of a convenience store and a dry cleaner; an office/warehouse park, consisting of two 8,000 square foot buildings and an approximate 375,000 square foot commercial/industrial warehouse building located on approximately 40 acres. An apartment complex (120-units) for seniors is located on approximately 12 acres within the District. In addition, a portion of the Luxe at Katy (formerly known as Remington Katy) apartments (105 units) is located on 4 acres.

The District has a recreation center which includes swimming pools, 4 tennis courts, basketball courts, a playground area, a meeting room facility and adjacent parking facilities on approximately 11 acres in the District and approximately 5 acres currently being developed as a park site.

Additionally, the District contains approximately 122 acres of undeveloped land, which have not been provided with water, wastewater and sanitary sewer facilities. The majority of this acreage is owned by Westside Ventures, Ltd. and is located in the Defined Area. See “DEFINED AREA” and “TAX DATA—Principal Taxpayers. The District has no knowledge of any specific plans of the owners of this acreage to develop their tracts of land at this time. The remaining 46 acres in the District are contained in easements, rights of way and plant sites. See INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

## **DEFINED AREA**

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, and Chapter 8002, Texas Special District Local Laws Code, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On August 16, 2017, the District approved the creation of a defined area encompassing approximately 92.8448 acres within the District (the “Defined Area”), approved a final engineering report and plan for improvements in the Defined Area (the “Improvement Plan), and issued an order calling a bond election and maintenance and operation tax election within the Defined Area (the “Defined Area Election”).

All property within the Defined Area is also within the District and is subject to the District tax rate. Upon the authorization of the voters in the Defined Area, the Defined Area may also be subject to a Defined Area tax rate. The District may also issue additional bonds in the Defined Area, subject to the authorization of the voters in the Defined Area and the approval of the TCEQ.

The Defined Area Election was held on November 7, 2017. Voters within the Defined Area approved the following: a proposition on the issuance of the bonds of the District for the provision of recreational facilities and refunding bonds in the maximum aggregate principal amount of \$18,300,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of the bonds of the District for the provision of a waterworks system, sanitary sewer system, and a drainage and storm sewer system and refunding bonds in the maximum aggregate principal amount of \$131,000,000 and the levy of taxes in payment of such bonds for the Defined Area; and a proposition on the levy of an operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Westside Ventures, Ltd. The District has no knowledge of any specific plans of the owners of this acreage to develop their tracts of land at this time.

The Bonds being sold are not related to the Defined Area.

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Each of the five current Directors owns land and/or resides in the District. Directors are elected by the voters within the District for four-year staggered terms. Directors elections are held only in even numbered years. The Directors and Officers of the District are listed below:

| <u>Name</u>    | <u>Title</u>    | <u>Term Expires</u> |
|----------------|-----------------|---------------------|
| Wheeler BeMent | President       | November 2022       |
| Billy Lowery   | Vice President  | November 2022       |
| W.R. Lusby     | Secretary       | November 2020       |
| Floyd Ball     | Asst. Secretary | November 2020       |
| William Evans  | Director        | November 2020       |

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

### **Tax Assessor/Collector**

Land and improvements within the District are appraised for ad valorem taxation purposes by Harris County Appraisal District. The District's contracts with Wheeler & Associates, Inc. to serve as Tax Assessor/Collector.

### **Bookkeeper**

The District has engaged Myrtle Cruz, Inc. to serve as the District's bookkeeper.

### **System Operator**

The District contracts with Municipal Operations & Consulting, Inc. for maintenance and operation of the District's system.

### **Engineer**

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

### **Attorney**

The District engages Marks Richardson PC as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

### **Financial Advisor**

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fees to be 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, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ending October 31, 2019 were audited by the independent account firm of Mark C. Eyring, CPA, PLLC. See "APPENDIX A" for a copy of the audited financial statement of the District as of October 31, 2019.

## **PARK FACILITIES**

Proceeds of the Unlimited Tax Park Bonds, Series 2017, were used to develop two parks within the District. The District used park bonds proceeds to purchase a 1.1392 acre tract located at the southwest corner of Earl of Dunmore and Mason Road and to demolish the improvements on the tract (the "Earl of Dunmore Park"). The District has constructed park improvements, including walking trails, site furniture, tree plantings, irrigation and landscape improvements at Earl of Dunmore Park.

## **THE SYSTEM**

### **Regulation**

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

### **Water Supply**

Proceeds of the District's previously issued bonds were used to finance the District's purchase of capacity in the Williamsburg Regional Water Plant, which is located within the District and jointly shared by the District and Harris County Municipal Utility District No. 62 ("MUD 62"). All water presently used comes from groundwater sources. Water supply facilities consist of a 776 gallon per minute ("gpm") water well; a 1,172 gpm water well; booster pump capacity of 3,750 gpm; two (2) hydro-pneumatic pressure tanks totaling 30,000 gallons; and two (2) 420,000 gallon ground storage tanks. According to the District Engineer, the water plant has adequate capacity to serve approximately 1,875 equivalent single-family connections ("esfc"), of which the District owns 1,250 esfc and MUD 62 owns 625 esfc. The District currently serves approximately 1,821 esfc. The District currently has a booster pump capacity shortage that has been identified although is not impacting the performance of the water supply distribution system. The District has determined the solution and is planning to rectify the booster pump capacity shortage in conjunction with infrastructure improvements projects associated with an ongoing substantial development within the District. Additionally, the District has two emergency interconnect agreements with Harris County Municipal Utility District No. 71 and West Harris County Municipal Utility District No. 2, which are normally closed.

### **Subsidence District Requirements**

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

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

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.24 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

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

### **Wastewater Treatment**

Proceeds of certain of the District's previously issued bonds were used to purchase capacity in the Williamsburg Sewage Treatment Plant ("WSTP") which is owned and operated by the Williamsburg Regional Sewage Authority. The current capacity of the WSTP is 3.0 million gallons per day ("gpd") and is shared by the District, Harris County Municipal Utility District Nos. 62, 63, 64, and 65 and West Harris County Municipal Utility District Nos. 2 and 5. The District owns 460,000 gpd capacity in the facility which, according to the Engineer, is sufficient to serve approximately 2,044 esfc based on a reduced flow factor of 225 gpd/connection. The District currently serves approximately 986 esfc.

### **Flood Protection**

"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 rainstorm of such intensity to statistically have one percent chance of occurring in any given year. Generally, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to meet all applicable standards.

According to the Engineer, there are approximately 60 acres located within the District within the 100-year flood plain or floodway according to the FEMA Flood Insurance Rate Maps and the Engineer (Firm Panel No. 48201C0485M). Approximately 60 residential homes fall within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

### **Atlas 14**

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.

## WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

### General

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

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for fiscal years October 31, 2015 through 2019. Reference is made to such statements and records for further and more complete information.

|  | Fiscal Year Ended October 31 |                     |                     |                     |                     |
|--|------------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2019                         | 2018                | 2017                | 2016                | 2015                |
| <b>Revenues</b>                              |                              |                     |                     |                     |                     |
| Property Taxes                               | \$ 374,029                   | \$ 451,814          | \$ 465,194          | \$ 377,806          | \$ 293,056          |
| Water Service                                | 270,518                      | 269,071             | 248,483             | 238,000             | 230,321             |
| Sewer Service                                | 175,320                      | 173,173             | 162,072             | 155,003             | 153,356             |
| Surface Water Fees                           | 303,534                      | 276,615             | 243,414             | 217,819             | 196,469             |
| Penalty and Interest                         | 11,689                       | 6,046               | 7,324               | 7,020               | 7,890               |
| Tap Connection and Inspection Fees           | 83,400                       | 55,835              | 16,625              | 58,651              | 65,720              |
| Payment in Lieu of taxes                     | 60,308                       | 53,416              | 59,186              | -                   | -                   |
| Sales and Uses Taxes                         | 143,409                      | 387,247             | 284,298             | 76,456              | 65,978              |
| Interest on Surface Water Contribution       | 11,298                       | 11,875              | 12,426              | 12,952              | 13,454              |
| Interest on Deposits                         | 13,915                       | 9,100               | 5,022               | 3,141               | 1,959               |
| Other Revenue                                | 6,163                        | 12,448              | 8,917               | 6,844               | 11,862              |
| <b>Total Revenues</b>                        | <b>\$ 1,453,583</b>          | <b>\$ 1,706,640</b> | <b>\$ 1,512,961</b> | <b>\$ 1,153,692</b> | <b>\$ 1,040,065</b> |
| <b>Expenditures</b>                          |                              |                     |                     |                     |                     |
| Purchased Services                           | \$ 435,037                   | \$ 419,305          | \$ 442,032          | \$ 448,818          | \$ 329,900          |
| Professional Fees                            | 215,182                      | 186,567             | 177,992             | 177,871             | 115,429             |
| Contracted Services                          | 40,250                       | 40,951              | 39,873              | 40,213              | 40,141              |
| Utilities                                    | 11,473                       | 10,803              | 10,724              | 11,109              | 8,055               |
| Repairs and Maintenance                      | 194,789                      | 235,359             | 164,662             | 141,721             | 138,847             |
| Other Operating Expenditures                 | 11,982                       | 12,613              | 9,871               | 9,740               | 11,859              |
| Administrative Expenditures                  | 68,224                       | 66,576              | 65,105              | 64,017              | 68,413              |
| Capital Outlay                               | 86,270                       | 168,207             | 64,092              | 164,154             | 33,702              |
| <b>Total Expenditures</b>                    | <b>\$ 1,063,207</b>          | <b>\$ 1,140,381</b> | <b>\$ 974,351</b>   | <b>\$ 1,057,643</b> | <b>\$ 746,346</b>   |
| <b>Net Revenues</b>                          | <b>\$ 390,376</b>            | <b>\$ 566,259</b>   | <b>\$ 538,610</b>   | <b>\$ 96,049</b>    | <b>\$ 293,719</b>   |
| <b>Other Financing Sources (Uses):</b>       |                              |                     |                     |                     |                     |
| Transfer In                                  | \$ -                         | \$ (75,000)         | \$ -                | \$ -                | \$ -                |
| <b>Total Other Financing Sources (Uses):</b> | <b>\$ -</b>                  | <b>\$ (75,000)</b>  | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>         |
| <b>Excess Net Revenues</b>                   | <b>\$ 390,376</b>            | <b>\$ 491,259</b>   | <b>\$ 538,610</b>   | <b>\$ 96,049</b>    | <b>\$ 293,719</b>   |
| <b>Fund Balance (Beginning of Year)</b>      | <b>\$ 2,306,723</b>          | <b>\$ 1,815,464</b> | <b>\$ 1,276,854</b> | <b>\$ 1,180,805</b> | <b>\$ 887,086</b>   |
| <b>Fund Balance (End of Year)</b>            | <b>\$ 2,697,099</b>          | <b>\$ 2,306,723</b> | <b>\$ 1,815,464</b> | <b>\$ 1,276,854</b> | <b>\$ 1,180,805</b> |

## FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation.....\$390,008,991 (a)

District Debt:

|   |                  |
|---|------------------|
| Outstanding Bonds (as of March 1, 2020).....              | \$15,640,000     |
| Less: The Refunded Bonds.....                             | 2,520,000        |
| Plus: The Bonds.....                                      | <u>2,585,000</u> |
| Gross Debt Outstanding (after issuance of the Bonds)..... | \$15,705,000 (b) |

Ratio of Gross Direct Debt to:

2019 Certified Taxable Assessed Valuation ..... 4.03%

Area of District—535 acres

2020 Population—2,389 (c)

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

(b) After the issuance of the Bonds. See “Outstanding Bonds” herein.

(c) Based upon 3.5 persons per occupied single-family residence and 2 persons per multi-family residence.

**Cash and Investment Balances** (unaudited as of April 28, 2020)

|                            |                                |                 |
|----------------------------|--------------------------------|-----------------|
| General Fund               | Cash and Temporary Investments | \$2,704,503     |
| Capital Projects Fund      | Cash and Temporary Investments | \$3,751,061     |
| Capital Projects Park Fund | Cash and Temporary Investments | \$340,544       |
| Debt Service Fund          | Cash and Temporary Investments | \$2,008,866 (a) |

(a) \$32,000 will be applied toward the Bonds. Neither the Bond Order nor Texas law requires that the District maintain any particular balance in the Debt Service Fund.

**Investments of the District**

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



## Outstanding Bonds

The following table lists the original principal amount and the current principal balance of the Outstanding Bonds as of April 1, 2020, the Refunded Bonds and the Remaining Outstanding Bonds.

| Series                                    |     | Original<br>Principal<br>Amount | Principal<br>Amount<br>Currently<br>Outstanding | Refunded<br>Bonds | Remaining<br>Outstanding<br>Bonds |
|---|-----|---------------------------------|---|-------------------|-----------------------------------|
| 2003                                      | (a) | \$ 1,275,000                    | \$ 350,000                                      | \$ -              | \$ 350,000                        |
| 2012                                      |     | 2,970,000                       | 2,820,000                                       | 2,520,000         | 300,000                           |
| 2013                                      |     | 4,005,000                       | 2,955,000                                       | -                 | 2,955,000                         |
| 2015                                      |     | 3,945,000                       | 3,715,000                                       | -                 | 3,715,000                         |
| 2017                                      | (b) | 2,375,000                       | 1,775,000                                       | -                 | 1,775,000                         |
| 2018                                      |     | 4,025,000                       | 4,025,000                                       | -                 | 4,025,000                         |
| Total                                     |     | \$ 18,595,000                   | \$ 15,640,000                                   | \$ 2,520,000      | \$ 13,120,000                     |
| The Bonds                                 |     |                                 |   |                   | 2,585,000                         |
| The Bonds and Remaining Outstanding Bonds |     |                                 |   |                   | \$ 15,705,000                     |

(a) Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds.  
(b) Unlimited Tax Park Bonds.

## **DEBT SERVICE REQUIREMENTS**

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the debt service on the Bonds (\$2,585,000 principal amount).

| Year  | Outstanding<br>Bonds<br>Debt Service<br>Requirements | Less: Debt<br>Service on the<br>Refunded Bonds | Plus: Debt Service on the Bonds |            |              | Total<br>Debt Service<br>Requirements |
|-------|--|--|---------------------------------|------------|--------------|---------------------------------------|
|       |  |  | Principal                       | Interest   | Total        |                                       |
| 2020  | \$ 1,307,249   | \$ 48,265                                      |                                 | \$ 17,897  | \$ 17,897    | \$ 1,276,881                          |
| 2021  | 1,296,999  | 96,530   | \$ 5,000                        | 71,588     | 76,588       | 1,277,056                             |
| 2022  | 1,286,011  | 246,530  | 160,000                         | 71,388     | 231,388      | 1,270,869                             |
| 2023  | 1,273,736  | 241,655  | 160,000                         | 64,988     | 224,988      | 1,257,069                             |
| 2024  | 1,261,161  | 236,780  | 160,000                         | 58,588     | 218,588      | 1,242,969                             |
| 2025  | 1,227,474  | 306,530  | 240,000                         | 52,188     | 292,188      | 1,213,131                             |
| 2026  | 1,164,074  | 298,655  | 240,000                         | 42,588     | 282,588      | 1,148,006                             |
| 2027  | 1,148,124  | 290,218  | 240,000                         | 32,988     | 272,988      | 1,130,894                             |
| 2028  | 1,131,436  | 281,780  | 235,000                         | 28,188     | 263,188      | 1,112,844                             |
| 2029  | 1,113,486  | 272,780  | 230,000                         | 23,488     | 253,488      | 1,094,194                             |
| 2030  | 1,095,211  | 263,780  | 225,000                         | 18,888     | 243,888      | 1,075,319                             |
| 2031  | 1,080,386  | 259,780  | 225,000                         | 14,388     | 239,388      | 1,059,994                             |
| 2032  | 1,070,024  | 260,580  | 230,000                         | 9,888      | 239,888      | 1,049,331                             |
| 2033  | 1,052,756  | 260,500  | 235,000                         | 5,288      | 240,288      | 1,032,544                             |
| 2034  | 764,844  | -  | -                               | -          | -            | 764,844                               |
| 2035  | 767,000  | -  | -                               | -          | -            | 767,000                               |
| 2036  | 768,250  | -  | -                               | -          | -            | 768,250                               |
| 2037  | 768,250  | -  | -                               | -          | -            | 768,250                               |
| 2038  | 637,313  | -  | -                               | -          | -            | 637,313                               |
| 2039  | 621,875  | -  | -                               | -          | -            | 621,875                               |
| 2040  | 276,250  | -  | -                               | -          | -            | 276,250                               |
| 2041  | 267,813  | -  | -                               | -          | -            | 267,813                               |
| 2042  | 233,438  | -  | -                               | -          | -            | 233,438                               |
| Total | \$ 21,613,159  | \$ 3,364,363                                   | \$ 2,585,000                    | \$ 512,334 | \$ 3,097,334 | \$ 21,346,131                         |

Maximum Annual Debt Service Requirement (2021).....\$1,277,056  
Average Annual Debt Service Requirements (2020-2042).....\$928,093

## ESTIMATED OVERLAPPING DEBT STATEMENT

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

| Taxing Jurisdiction                              | Outstanding<br>Bonds | As of     | Overlapping |               |
|--|----------------------|-----------|-------------|---------------|
|  |                      |           | Percent     | Amount        |
| Harris County.....                               | \$ 1,885,182,125     | 2/28/2020 | 0.08%       | \$ 1,508,146  |
| Harris County Flood Control District.....        | 83,075,000           | 2/28/2020 | 0.08%       | 66,460        |
| Harris County Department of Education.....       | 6,320,000            | 2/28/2020 | 0.08%       | 5,056         |
| Harris County Hospital District.....             | 55,005,000           | 2/28/2020 | 0.08%       | 44,004        |
| Port of Houston Authority.....                   | 572,569,397          | 2/28/2020 | 0.08%       | 458,056       |
| Katy Independent School District.....            | 1,752,016,959        | 2/28/2020 | 0.96%       | 16,819,363    |
| Total Estimated Overlapping Debt.....            |                      |           |             | \$ 18,901,084 |
| The District.....                                | 15,705,000 (a)       | Current   | 100.00%     | 15,705,000    |
| Total Direct and Estimated Overlapping Debt..... |                      |           |             | \$ 34,606,084 |

(a) After issuance of the Bonds.

### Overlapping Taxes for 2019

|   | 2019 Tax Rate<br>per \$100 of Taxable<br><u>Assessed Valuation</u> |
|---|--|
| Harris County (including Harris County Flood Control District,<br>Harris County Hospital District, Harris County Department of<br>Education, and the Port of Houston Authority..... | \$ 0.616700  |
| Katy Independent School District.....   | 1.443100   |
| Harris County ESD No. 48.....   | <u>0.100000</u>  |
| Total Tax Rate of Overlapping Entities.....   | \$ 2.15980   |
| The District.....   | <u>0.48000</u>   |
| Total Overlapping Tax Rate.....   | \$ 2.63980   |

## TAX DATA

### Tax Collections

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

| Tax Year | Certified<br>Taxable Assessed<br>Valuation | Tax<br>Rate | Total<br>Tax Levy | Total Collections<br>as of March 31, 2020 |         |
|----------|--|-------------|-------------------|---|---------|
|          |  |             |                   | Amount                                    | Percent |
| 2015     | \$ 252,459,644                             | 0.50        | \$ 1,262,050      | \$ 1,262,016                              | 99.99%  |
| 2016     | 306,279,517                                | 0.49        | 1,493,549         | 1,493,399                                 | 99.99%  |
| 2017     | 312,036,515                                | 0.48        | 1,490,250         | 1,488,997                                 | 99.92%  |
| 2018     | 323,248,359                                | 0.48        | 1,544,583         | 1,543,642                                 | 99.94%  |
| 2019     | 390,008,991                                | 0.48        | 1,872,040         | 1,850,280                                 | 98.84%  |

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

### Tax Rate Distribution

|                            | 2019     | 2018     | 2017     | 2016     | 2015     |
|----------------------------|----------|----------|----------|----------|----------|
| Debt Service               | \$ 0.365 | \$ 0.365 | \$ 0.330 | \$ 0.340 | \$ 0.350 |
| Maintenance and Operations | 0.115    | 0.115    | 0.150    | 0.150    | 0.150    |
| Total                      | \$ 0.480 | \$ 0.480 | \$ 0.480 | \$ 0.490 | \$ 0.500 |

### Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).  
Maintenance and Operations: \$0.15 per \$100 assessed valuation.

### Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 in the amount of \$0.365 per \$100 of taxable assessed valuation. See "Tax Rate Distribution" and "Tax Roll Information" herein and "TAX PROCEDURES."

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On April 6, 1974, the District's voters authorized the Board to levy such a maintenance tax in an amount not to exceed \$0.15 per \$100 of taxable assessed valuation. The District levied a maintenance tax for 2019 at the rate of \$0.115 per \$100 of taxable assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

### Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District has adopted a 20% homestead exemption for any residential homesteads in the District and has exempted \$60,000 of the appraised value of resident homesteads for persons who are disabled or 65 years of age or older.

### Additional Penalties

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

**Principal Taxpayers**

The following list of principal taxpayers was provided by the District’s Tax Assessor/Collector based upon the 2019 Certified Taxable Assessed Valuation, which reflects ownership at January 1, 2019.

| <u>Taxpayer</u>              | <u>Type of Property</u>       | <u>2019 Certified<br/>Taxable Assessed<br/>Valuation</u> | <u>% of<br/>2019 Certified<br/>Taxable Assessed<br/>Valuation</u> |
|------------------------------|-------------------------------|--|---|
| Eastgroup Properties LP      | Office Building               | \$ 60,200,000  | 15.44%  |
| Thomson Logistics Assets LLC | Distribution Warehouse        | 32,262,199   | 8.27%   |
| Westside Ventures Ltd.       | Land                          | 31,152,394   | 7.99%   |
| 1400 Ravello Owner LLC Et Al | Office Building               | 28,791,500   | 7.38%   |
| Newpark Drilling Fluids LLC  | Land, Improvements & Personal | 27,158,310   | 6.96%   |
| Exeter Mas on Ranch LP       | Distribution Warehouse        | 19,980,000   | 5.12%   |
| Skybox Houston I LP          | Office Building               | 19,048,000   | 4.88%   |
| VC AREP Colonial Parkway     | Multi-Family                  | 8,768,255  | 2.25%   |
| Liugong Construction         | Personal Property             | 5,651,090  | 1.45%   |
| InfoTM Inc                   | Data Center                   | 4,629,257  | 1.19%   |
| <b>Total</b>                 |                               | <b>\$ 237,641,005</b>                                    | <b>60.93%</b>   |

**Summary of Assessed Valuation**

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAX PROCEDURES—Valuation of Property for Taxation”). The following breakdown of the 2017 through 2019 Certified Taxable Assessed Valuations has been provided by the District’s Tax Assessor/Collector based on information contained in the 2017 through 2019 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided.

|                   | <u>2019<br/>Taxable<br/>Assessed Valuation</u> | <u>2018<br/>Taxable<br/>Assessed Valuation</u> | <u>2017<br/>Taxable<br/>Assessed Valuation</u> |
|-------------------|--|--|--|
| Land              | \$ 110,741,713                                 | \$ 102,560,054                                 | \$ 100,600,029                                 |
| Improvements      | 271,652,974                                    | 220,962,136                                    | 213,248,998                                    |
| Personal Property | 58,824,530                                     | 51,460,824                                     | 47,622,523                                     |
| Exemptions        | (51,210,226)                                   | (51,418,734)                                   | (49,397,026)                                   |
| <b>Total</b>      | <b>\$ 390,008,991</b>                          | <b>\$ 323,564,280</b>                          | <b>\$ 312,074,524</b>                          |

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation and no use of debt service funds on hand, collection of ninety-five percent (95%) of taxes levied, and utilize tax rates necessary to pay the District’s maximum annual and average annual debt service requirements. See “INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rates.”

|  |                 |
|--|-----------------|
| Average Annual Debt Service Requirement (2020-2042).....               | \$928,093       |
| \$0.26 Tax Rate on the 2019 Certified Taxable Assessed Valuation ..... | \$963,322       |
| <br>Maximum Annual Debt Service Requirement (2021).....                | <br>\$1,277,056 |
| \$0.35 Tax Rate on the 2019 Certified Taxable Assessed Valuation ..... | \$1,296,780     |

## **TAX PROCEDURES**

### **Authority to Levy Taxes**

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

### **Property Tax Code and County-Wide Appraisal District**

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt 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; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least 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 2020 tax year, the District has granted an exemption of \$75,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the 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, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if (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 a member 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.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

### **Tax Abatement**

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

### **Agricultural, Open Space, Timberland and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2020, no land within the District was designated for agricultural use, open space, inventory deferment or timberland.

### **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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

## **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

## **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180<sup>th</sup>) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

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

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

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

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

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

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

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

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

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law, and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, 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, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations and Foreclosure Remedies."



## **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## **INVESTMENT CONSIDERATIONS**

### **General**

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

### **Infectious Disease Outlook (COVID-19)**

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-16 on April 17, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or essential daily activities and closes schools to in-person classroom attendance by students through the 2019-2020 school year, unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. Since April 27, 2020, the Governor has taken various actions to reopen, in phases that began on May 1, 2020, certain commercial and other services previously closed by prior actions of the Governor and local officials (collectively, “reopened services”). However, various limitations remain in place on reopened services, including, but not limited to, significant restrictions on building occupancy, and customers may remain unwilling or financially unable to obtain such reopened services. In addition, Harris County, within which the District is located, has issued a “stay home” order for most citizens except when engaged in specified essential businesses (including government functions) or reopened services. 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 may negatively affect economic growth within Texas.

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds. Such a reduction in property values may also require the District to increase its ad valorem tax rate for operations and maintenance expenses and/or its utility rates charged to its utility customers.

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

### **Potential Effects of Oil Price Declines on the Houston Area**

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. As previously stated, 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. Such a reduction in property values may also require the District to increase its ad valorem tax rate for operations and maintenance expenses and/or its utility rates charged to its utility customers.

### **Recent Extreme Weather Events; Hurricane Harvey**

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

According to the Operator, the District's System (as defined herein) did not sustain any material damage, there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, after investigation, it appeared that approximately 8 homes within the District experienced water incursions or other significant damage as a result of Hurricane Harvey. No commercial improvements within the District were affected.

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 in the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

### **Specific Flood Type Risks**

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

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

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

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, multi-family residences and commercial property. The market value of such properties is related to general economic conditions affecting the demand for these property types. Demand for lots of this type and commercial properties can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and cost, employment stability, and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed.

### **Landowner Obligation to the District**

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

### **Dependence on Principal Taxpayers**

Based on the certified 2019 tax rolls, the ten largest property owners are responsible for payment of 60.93% (\$237,641,005) of the District's 2019 taxable value. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. Certain of the District's principal taxpayers, including the District's top taxpayer at 15.44% of the tax roll, own large, commercial office facilities in the District. Such facilities may not be readily sold, re-leased or re-purposed should the taxpayer cease operations in the District. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy a higher tax rate or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

### **Tax Collections Limitations and Foreclosure Remedies**

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

## **Registered Owners' Remedies and Bankruptcy Limitations**

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

## **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. At elections held within the District on April 6, 1974, April 3, 1982, and November 7, 2006, voters of the District authorized a total of \$42,685,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. At an election held within the District on May 2, 1992, voters of the District authorized a total of \$12,000,000 principal amount of unlimited tax refunding bonds. At an election held within the District on July 26, 2016, voters of the District authorized a total of \$14,000,000 principal amount of bonds for the purpose of acquiring or constructing park and recreational facilities. After sale of the Bonds, \$8,833,785.07 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District, \$11,625,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities and \$20,055,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The District is limited to park bonds in an amount not to exceed one percent (1%) of its taxable certified value. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. Voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

At an election held within the District on November 7, 2017, voters of the Defined Area authorized a total of \$18,300,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities or refunding such bonds, \$49,500,000 principal amount of unlimited tax bonds for the purpose of constructing road facilities or refunding such bonds and \$131,000,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities or refunding such bonds. All of such authorization remains unissued.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for such purposes is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS—Issuance of Additional Debt.”

## **Environmental Regulations**

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

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

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

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

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

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

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

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

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

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

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

Pursuant to the federal Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

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 finalized a replacement definition of “waters of the United States.” The definition outlines the categories of waters that would be considered “waters of the United States,” including traditional navigable waters, perennial and intermittent tributaries to those waters, certain ditches, certain lakes, ponds and impoundments, and wetlands adjacent to jurisdictional waters. The rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; farm and stock watering ponds; stormwater control features; and waste treatment systems. The new rule will become effective on June 20, 2020, and may be 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.

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

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

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment.

### **Future and Proposed Legislation**

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

### **Marketability**

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

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

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

## LEGAL MATTERS

### Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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 Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Marks Richardson PC, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect 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. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District.

In addition to serving as Bond Counsel, Marks Richardson PC, also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel.

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

### Legal Review

In its capacity as Bond Counsel, Marks Richardson PC, has reviewed the information appearing in this Official Statement under the captioned sections "PLAN OF FINANCING – Escrow Agreement" (but only insofar as such section relates to the legal opinion of Bond Counsel), "THE BONDS," "THE DISTRICT – General," "Strategic Partnership Agreement," and "– MANAGEMENT OF THE DISTRICT - Bond Counsel and General Counsel," "TAX PROCEDURES," "LEGAL MATTERS – Legal Opinions" and "Tax Exemption" (but only insofar as such sections relate to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor have such firms 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 firms' 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 other information contained herein.

### Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect 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.

Bond Counsel's opinion will state that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (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, as amended (the "Code").

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds. The law upon which Bond Counsel has based its opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.



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

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain "S" Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

**INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC 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 minimus 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.

### **Qualified Tax-Exempt Obligations**

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds and not including private activity bonds other than qualified 501(c)(3) bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds and not including private activity bonds other than qualified 501(c)(3) bonds) during calendar year 2020.

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

### **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.

## **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 accrued period or be in excess of one year (the "Original Issue Discount Bonds"). 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 constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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 amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, 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.

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

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$2,633,316.91 (representing the par amount of the Bonds of \$2,585,000.00, plus a net premium on the Bonds of \$76,079.55, less an Underwriter's discount of \$27,762.64) plus accrued interest. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING."

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

## **Prices and Marketability**

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

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

## **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## **MUNICIPAL BOND RATING**

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

The rating reflects only the view of such organizations and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## **MUNICIPAL BOND INSURANCE**

### **Municipal Bond Insurance Policy**

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

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

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

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and 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 “MUNICIPAL BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

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

### **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

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

### **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

### **PREPARATION OF OFFICIAL STATEMENT**

#### **Sources and Compilation of Information**

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

## **Financial Advisor**

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources: “THE DISTRICT,” “THE SYSTEM”— A & S Engineers, Inc., “THE BONDS” and “LEGAL MATTERS – Legal Opinions” (insofar as such section relates to the legal opinion of Bond Counsel)— Marks Richardson PC, as applicable; “FINANCIAL STATEMENT” and “TAX DATA”— Harris County Appraisal District, Wheeler & Associates, Inc. and the Municipal Advisory Council.

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

## **Underwriter**

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

## **Consultants**

In approving this Official Statement, the District has relied upon the following consultants. Each consultant has agreed to the use of information provided by such firms.

*Engineer:* The information contained in this Official Statement relating to engineering and to the description of the system and, in particular that information included in the sections entitled “THE DISTRICT,” “THE SYSTEM” and “WATER AND WASTEWATER” has been provided by A & S Engineers, Inc., Consulting Engineers, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

*Auditor:* The District’s financial statements for the fiscal year ending October 31, 2019 were audited by Mark C. Eyring, CPA, PLLC. See APPENDIX A for a copy of the District’s audited financial statements for the fiscal year ended October 31, 2019.

## **Updating the Official Statement**

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

## **Certification of Official Statement**

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

## **NO MATERIAL ADVERSE CHANGE**

The obligations of the Initial Purchaser to take and pay for the Bonds, and 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 or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of the sale.

## **NO-LITIGATION CERTIFICATE**

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

### **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL STATEMENT," "TAX DATA," "THE SYSTEM," "WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT," "DEBT SERVICE REQUIREMENTS," and in APPENDIX A (Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any financial statements provided by the District shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable year to the MSRB within such six-month period and audited financial statements when the audit becomes available.

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

### **Specified Event Notices**

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other

similar terms of a financial obligation of the District or other obligated person, any of which affect holders of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “financial obligation” and “material” when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

**Availability of Information from the MSRB**

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

**Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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 operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. 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 reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12, except as follows: The District’s audit for fiscal year 2013 was timely filed, but not linked to the District’s Unlimited Tax Bonds, Series 2013. Such correction was made on August 16, 2018 along with the filing of the appropriate notice of non-compliance. The District failed to timely file certain operating data for fiscal year end 2015 until April 27, 2017. The District filed the appropriate notice of non-compliance.

**MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 61 as of the date shown on the cover page.

/s/ Wheeler BeMent  
President, Board of Directors

ATTEST:

/s/ W.R. Lusby  
Secretary, Board of Directors



**APPENDIX A**

**District Audited Financial Statements for the fiscal year ended October 31, 2019**

HARRIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 61  
HARRIS COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
OCTOBER 31, 2019

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# Mark C. Eyring, CPA, PLLC

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February 25, 2020

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris County Municipal  
Utility District No. 61  
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 61, as of and for the year ended October 31, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **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 of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 assessment of the risk of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 61 as of October 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 9 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 26 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 28 to 47 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in dark ink, appearing to read "M. G. J.", is located in the lower right quadrant of the page.

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 61 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended October 31, 2019.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

#### *Fund Financial Statements*

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

### **Financial Analysis of the District as a Whole**

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

|  | <u>2019</u>         | <u>2018</u>         | <u>Change</u>      |
|--|---------------------|---------------------|--------------------|
| Current and other assets                           | \$ 9,846,481        | \$ 10,486,208       | \$ (639,727)       |
| Capital assets                                     | 13,920,189          | 13,530,552          | 389,637            |
| Total assets                                       | <u>23,766,670</u>   | <u>24,016,760</u>   | <u>(250,090)</u>   |
| Long-term liabilities                              | 18,522,640          | 19,209,924          | (687,284)          |
| Other liabilities                                  | 1,099,120           | 1,596,183           | (497,063)          |
| Total liabilities                                  | <u>19,621,760</u>   | <u>20,806,107</u>   | <u>(1,184,347)</u> |
| Total deferred inflows of resources                | <u>1,458,554</u>    | <u>1,363,672</u>    | <u>94,882</u>      |
| Net position:                                      |                     |                     |                    |
| Invested in capital assets,<br>net of related debt | (5,346,365)         | (6,270,124)         | 923,759            |
| Restricted   | 5,564,942           | 6,053,061           | (488,119)          |
| Unrestricted                                       | 2,467,779           | 2,064,044           | 403,735            |
| Total net position                                 | <u>\$ 2,686,356</u> | <u>\$ 1,846,981</u> | <u>\$ 839,375</u>  |

Summary of Changes in Net Position

|   | <u>2019</u>         | <u>2018</u>         | <u>Change</u>     |
|---|---------------------|---------------------|-------------------|
| Revenues:   |                     |                     |                   |
| Property taxes, including related<br>penalty and interest | \$ 1,578,399        | \$ 1,467,065        | \$ 111,334        |
| Charges for services                                      | 1,155,999           | 1,054,701           | 101,298           |
| Other revenues  | 183,023             | 414,925             | (231,902)         |
| Total revenues  | <u>2,917,421</u>    | <u>2,936,691</u>    | <u>(19,270)</u>   |
| Expenses:   |                     |                     |                   |
| Service operations  | 1,501,630           | 1,595,989           | (94,359)          |
| Debt service  | 576,416             | 754,910             | (178,494)         |
| Total expenses  | <u>2,078,046</u>    | <u>2,350,899</u>    | <u>(272,853)</u>  |
| Change in net position                                    | 839,375             | 585,792             | 253,583           |
| Net position, beginning of year                           | <u>1,846,981</u>    | <u>1,261,189</u>    | <u>585,792</u>    |
| Net position, end of year                                 | <u>\$ 2,686,356</u> | <u>\$ 1,846,981</u> | <u>\$ 839,375</u> |

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended October 31, 2019, were \$8,116,979, a decrease of \$236,497 from the prior year.

The General Fund balance increased by \$390,376, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.



The Debt Service Fund balance decreased by \$136,429, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$490,444, as authorized expenditures exceeded interest earnings on deposits.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of budgeted to actual amounts is presented on Page 26 of this report. The budgetary fund balance as of October 31, 2019, was expected to be \$2,660,621, and the actual end of year fund balance was \$2,697,099.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

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

|                           | <u>Capital Assets (Net of Accumulated Depreciation)</u> |                      |                   |
|---------------------------|---|----------------------|-------------------|
|                           | <u>2019</u>   | <u>2018</u>          | <u>Change</u>     |
| Land and easements        | \$ 2,460,152  | \$ 2,460,152         | \$ 0              |
| Detention ponds           | 1,355,836   | 1,355,836            | 0                 |
| Construction in progress  | 4,708,460   | 6,659,115            | (1,950,655)       |
| Amenity pond improvements | 89,889  | 98,060               | (8,171)           |
| Water facilities          | 4,217,275   | 1,811,359            | 2,405,916         |
| Sewer facilities          | 1,088,577   | 1,146,030            | (57,453)          |
| Totals                    | <u>\$ 13,920,189</u>                                    | <u>\$ 13,530,552</u> | <u>\$ 389,637</u> |

Changes to capital assets during the fiscal year ended October 31, 2019, are summarized as follows:

#### Additions:

|                                   |               |
|-----------------------------------|---------------|
| Water line replacement            | \$ 431,371    |
| Construction by developers        | 63,742        |
| Park improvements                 | 58,831        |
| Detention system improvements     | 26,395        |
| Sewer system improvements         | <u>23,000</u> |
| Total additions to capital assets | 603,339       |

#### Decreases:

|                              |                   |
|------------------------------|-------------------|
| Depreciation                 | <u>(213,702)</u>  |
| Net change to capital assets | <u>\$ 389,637</u> |

#### *Debt*

Changes in the bonded debt position of the District during the fiscal year ended October 31, 2019, are summarized as follows:

|  |                      |
|--|----------------------|
| Bonded debt payable, beginning of year | \$ 16,405,000        |
| Bonds paid                             | <u>(765,000)</u>     |
| Bonded debt payable, end of year       | <u>\$ 15,640,000</u> |

At October 31, 2019, the District had \$20,055,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District and \$11,625,000 of bonds authorized but unissued for the purposes of acquiring or constructing park and recreational facilities.

The District's bonds have an underlying rating of A3 by Moody's Investors Service (Moody's). The Series 2003 bonds are insured by National Public Finance Guarantee Corp. (formerly Financial Guaranty Insurance Company (FGIC)), and the Series 2013, 2015 and 2017 bonds are insured by Assured Guaranty Municipal Corp. The Series 2018 bonds are insured by Build America Mutual Assurance Company. The Series 2012 bonds are not insured. The Series 2003 bonds do not have an insured rating. The Series 2012 bonds are rated A3 by Moody's. The insured rating of the Series 2013, 2015 and 2017 bonds is A2 by Moody's. The insured rating of the Series 2015, 2017 and 2018 bonds is AA by Standard & Poor's. There were no changes in the ratings of the District's bonds during the fiscal year ended October 31, 2019.

As further described in Note 5 of the notes to the financial statements, developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at October 31, 2019, was \$3,928,791.

## **RELEVANT FACTORS AND WATER SUPPLY ISSUES**

### *Property Tax Base*

The District's tax base decreased approximately \$20,821,000 for the 2019 tax year as of October 31, 2019. However, approximately \$85,646,000 additional valuation was certified subsequent to October 31, 2019.

### *Relationship to the City of Houston*

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 ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into the Second Amended and Restated Strategic Partnership Agreement ("SPA") effective as of June 5, 2014, which superseded and replaced the SPA dated April 11, 2003, as amended effective December 14, 2009. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax and certain municipal fire codes banning fireworks. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The term of the SPA is 19 years from the date of the Second Amended and Restated SPA. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City has imposed a Sales and Use Tax within the boundaries of the SPA at the time of the limited-purpose annexation of the Partial District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas.

### *Water Supply Issues*

The District is within the Harris-Galveston Subsidence District (the “Subsidence District”) Regulatory Area No. 3. The Subsidence District regulates the withdrawal of groundwater within its jurisdiction. The District’s authority to pump ground water from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules. Beginning in January 2003, the District was required to have a groundwater reduction plan (“GRP”), approved by the Subsidence District and by January 2005, the District must have provided evidence to the Subsidence District that construction of the infrastructure defined within the District’s certified groundwater reduction plan has started. The Subsidence District has designated January 2010, as the date required for the District to restrict the withdrawal of ground water and convert 30% of its total water use to surface water; January 2025, as the date required for the District to restrict the withdrawal of ground water and convert 60% of its total water use to surface water and January 2035, as the date required for the District to restrict the withdrawal of ground water and convert 80% of its total water use to surface water. If the District does not meet the requirements of the Subsidence District, the District may be required to pay the disincentive fees adopted by the Subsidence District.

In May, 2001, the Texas Legislature created the West Harris County Regional Water Authority (the “Authority”) and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the subsidence District’s requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority’s GRP to achieve compliance with the subsidence District’s requirements. In accordance with the GRP, the Authority has negotiated a water supply contract with the City of Houston and has issued revenue bonds to finance the surface water supply system. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. The Authority’s ground water pumpage fee was equal to \$2.95 as of October 31, 2019, and is expected to increase in the future. The Authority’s surface water usage fee was equal to \$3.35 as of October 31, 2019, and is expected to increase in the future.

The Authority, as part of the plan of financing the Authority System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the Authority System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the Authority. The District has contributed funds to the Authority for its share of the construction costs in connection with the Authority’s first bond issue.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water rates. In addition, conversion to surface water will necessitate improvements to the District’s water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority’s GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority’s fee.

### *Defined Area*

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, and Chapter 8002, Texas Special District Local Laws Code, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On August 16, 2017, the District approved the creation of a defined area encompassing approximately 92.8448 acres within the District (the “Defined Area”), approved a final engineering report and plan for improvements in the Defined Area (the “Improvement Plan”), and issued an order calling a bond election and maintenance and operation tax election within the Defined Area (the “Defined Area Election”).

All property within the Defined Area is also within the District and is subject to the District tax rate. Upon the authorization of the voters in the Defined Area, the Defined Area may also be subject to a Defined Area tax rate. The District may also issue additional bonds in the Defined Area, subject to the authorization of the voters in the Defined Area and the approval of the TCEQ.

At the Defined Area Election on November 7, 2017 the voters within the Defined Area approved the following: a proposition on the issuance of the bonds of the District for the provision of recreational facilities and refunding bonds in the maximum aggregate principal amount of \$18,300,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of the bonds of the District for the provision of a waterworks system, sanitary sewer system, and a drainage and storm sewer system and refunding bonds in the maximum aggregate principal amount of \$131,000,000 and the levy of taxes in payment of such bonds for the Defined Area; and propositions on the levy of an operation and maintenance tax not to exceed \$1.00 per \$100 valuation for operation and maintenance purposes on all property subject to taxation within the Defined Area and the levy of an operation and maintenance tax not to exceed \$0.25 per \$100 valuation for operation and maintenance purposes on road facilities on all property subject to taxation within the Defined Area, for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Westside Ventures, Ltd., which plans to develop a mixed-use commercial, retail, and residential city center development in the Defined Area.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

OCTOBER 31, 2019

|   | General             | Special<br>Revenue<br>Fund | Debt<br>Service     | Capital<br>Projects | Total               | Adjustments<br>(Note 3) | Statement<br>of Net<br>Position |
|---|---------------------|----------------------------|---------------------|---------------------|---------------------|-------------------------|---------------------------------|
| <b>ASSETS</b>   |                     |                            |                     |                     |                     |                         |                                 |
| Cash, including interest-bearing accounts, Note 7             | \$ 2,028,366        | \$ 945                     | \$ 458,606          | \$ 4,380,032        | \$ 6,867,949        |                         | \$ 6,867,949                    |
| Certificates of deposit, at cost, Note 7                      | 417,860             |                            | 623,313             |                     | 1,041,173           |                         | 1,041,173                       |
| Receivables:  |                     |                            |                     |                     |                     |                         |                                 |
| Property taxes  | 348,403             |                            | 1,100,885           |                     | 1,449,288           |                         | 1,449,288                       |
| Accrued penalty and interest on property taxes                |                     |                            |                     |                     | 0                   | 8,885                   | 8,885                           |
| Service accounts  | 105,296             |                            |                     |                     | 105,296             |                         | 105,296                         |
| Accrued interest  | 2,257               |                            | 5,257               |                     | 7,514               |                         | 7,514                           |
| Sales and Use Taxes, Note 11                                  | 38,692              |                            |                     |                     | 38,692              |                         | 38,692                          |
| Other   | 17,270              |                            |                     |                     | 17,270              |                         | 17,270                          |
| Due from other district, Note 9                               |                     | 47,192                     |                     |                     | 47,192              | 7,112                   | 54,304                          |
| Due from other funds  | 9,929               | 31,325                     |                     |                     | 41,254              | (41,254)                | 0                               |
| Prepaid surface water capital contribution, Note 10           | 236,623             |                            |                     |                     | 236,623             |                         | 236,623                         |
| Operating reserve at joint plants, Note 9                     | 30,000              |                            |                     |                     | 30,000              | (20,000)                | 10,000                          |
| Groundwater bank certificates, at cost, Note 12               | 9,487               |                            |                     |                     | 9,487               |                         | 9,487                           |
| Capital assets, net of accumulated depreciation, Note 4:      |                     |                            |                     |                     |                     |                         |                                 |
| Capital assets not being depreciated                          |                     |                            |                     |                     | 0                   | 8,524,448               | 8,524,448                       |
| Depreciable capital assets                                    |                     |                            |                     |                     | 0                   | 5,395,741               | 5,395,741                       |
| <b>Total assets</b>   | <b>\$ 3,244,183</b> | <b>\$ 79,462</b>           | <b>\$ 2,188,061</b> | <b>\$ 4,380,032</b> | <b>\$ 9,891,738</b> | <b>13,874,932</b>       | <b>23,766,670</b>               |
| <b>LIABILITIES</b>  |                     |                            |                     |                     |                     |                         |                                 |
| Accounts payable  | \$ 79,537           | \$ 49,462                  | \$ 31,630           | \$ 6,500            | \$ 167,129          |                         | 167,129                         |
| Construction contracts payable                                |                     |                            |                     | 2,783               | 2,783               |                         | 2,783                           |
| Accrued interest payable                                      |                     |                            |                     |                     | 0                   | 88,708                  | 88,708                          |
| Customer and builder deposits                                 | 79,474              |                            |                     |                     | 79,474              |                         | 79,474                          |
| Due to other funds  | 31,325              |                            | 9,623               | 306                 | 41,254              | (41,254)                | 0                               |
| Other district equity in joint plant                          |                     |                            |                     |                     | 0                   | 10,000                  | 10,000                          |
| Long-term liabilities, Note 5:                                |                     |                            |                     |                     |                     |                         |                                 |
| Due within one year   |                     |                            |                     |                     | 0                   | 751,026                 | 751,026                         |
| Due in more than one year                                     |                     |                            |                     |                     | 0                   | 18,522,640              | 18,522,640                      |
| <b>Total liabilities</b>                                      | <b>190,336</b>      | <b>49,462</b>              | <b>41,253</b>       | <b>9,589</b>        | <b>290,640</b>      | <b>19,331,120</b>       | <b>19,621,760</b>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                          |                     |                            |                     |                     |                     |                         |                                 |
| Property tax revenues   | 356,748             | 0                          | 1,127,371           | 0                   | 1,484,119           | (25,565)                | 1,458,554                       |
| <b>FUND BALANCES / NET POSITION</b>                           |                     |                            |                     |                     |                     |                         |                                 |
| Fund balances:  |                     |                            |                     |                     |                     |                         |                                 |
| Nonspendable:   |                     |                            |                     |                     |                     |                         |                                 |
| Prepaid surface water capital contribution, Note 10           | 236,623             |                            |                     |                     | 236,623             | (236,623)               | 0                               |
| Operating reserve at joint plants, Note 9                     | 30,000              |                            |                     |                     | 30,000              | (30,000)                | 0                               |
| Reserved for groundwater bank certificates, Note 12           | 9,487               |                            |                     |                     | 9,487               | (9,487)                 | 0                               |
| Restricted for operating reserve, Note 9                      |                     | 30,000                     |                     |                     | 30,000              | (30,000)                | 0                               |
| Committed to construction contracts in progress               |                     |                            |                     | 297,948             | 297,948             | (297,948)               | 0                               |
| Assigned to:  |                     |                            |                     |                     |                     |                         |                                 |
| Debt service  |                     |                            | 1,019,437           |                     | 1,019,437           | (1,019,437)             | 0                               |
| Capital projects  |                     |                            |                     | 4,072,495           | 4,072,495           | (4,072,495)             | 0                               |
| Unassigned  | 2,420,989           |                            |                     |                     | 2,420,989           | (2,420,989)             | 0                               |
| <b>Total fund balances</b>                                    | <b>2,697,099</b>    | <b>30,000</b>              | <b>1,019,437</b>    | <b>4,370,443</b>    | <b>8,116,979</b>    | <b>(8,116,979)</b>      | <b>0</b>                        |
| <b>Total liabilities, deferred inflows, and fund balances</b> | <b>\$ 3,244,183</b> | <b>\$ 79,462</b>           | <b>\$ 2,188,061</b> | <b>\$ 4,380,032</b> | <b>\$ 9,891,738</b> |                         |                                 |
| Net position:   |                     |                            |                     |                     |                     |                         |                                 |
| Invested in capital assets, net of related debt, Note 4       |                     |                            |                     |                     |                     | (5,346,365)             | (5,346,365)                     |
| Restricted for debt service                                   |                     |                            |                     |                     |                     | 957,876                 | 957,876                         |
| Restricted for capital projects                               |                     |                            |                     |                     |                     | 4,370,443               | 4,370,443                       |
| Restricted for prepaid surface water capital contribution     |                     |                            |                     |                     |                     | 236,623                 | 236,623                         |
| Unrestricted  |                     |                            |                     |                     |                     | 2,467,779               | 2,467,779                       |
| <b>Total net position</b>                                     |                     |                            |                     |                     |                     | <b>\$ 2,686,356</b>     | <b>\$ 2,686,356</b>             |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED OCTOBER 31, 2019

|  | General<br>Fund  | Special<br>Revenue<br>Fund | Debt<br>Service<br>Fund | Capital<br>Projects<br>Fund | Total            | Adjustments<br>(Note 3) | Statement<br>of<br>Activities |
|--|------------------|----------------------------|-------------------------|-----------------------------|------------------|-------------------------|-------------------------------|
| <b>REVENUES</b>  |                  |                            |                         |                             |                  |                         |                               |
| Property taxes   | \$ 374,029       |                            | \$ 1,184,663            | \$                          | \$ 1,558,692     | \$ 3,748                | \$ 1,562,440                  |
| Water service  | 270,518          |                            |                         |                             | 270,518          |                         | 270,518                       |
| Sewer service  | 175,320          |                            |                         |                             | 175,320          |                         | 175,320                       |
| Surface water fees, Note 10  | 303,534          |                            |                         |                             | 303,534          |                         | 303,534                       |
| From participants in plant, Note 9                                 |                  | 594,053                    |                         |                             | 594,053          | (360,284)               | 233,769                       |
| Penalty and interest   | 11,689           |                            | 13,528                  |                             | 25,217           | 2,431                   | 27,648                        |
| Tap connection and inspection fees                                 | 83,400           |                            |                         |                             | 83,400           |                         | 83,400                        |
| Payment in lieu of taxes   | 60,308           |                            |                         |                             | 60,308           |                         | 60,308                        |
| Sales and Use Taxes, Note 11                                       | 143,409          |                            |                         |                             | 143,409          |                         | 143,409                       |
| Interest on prepaid surface water<br>capital contribution, Note 10 | 11,298           |                            |                         |                             | 11,298           |                         | 11,298                        |
| Interest on deposits   | 13,915           | 44                         | 16,426                  | 9,229                       | 39,614           |                         | 39,614                        |
| Other revenues   | 6,163            |                            |                         |                             | 6,163            |                         | 6,163                         |
| <b>Total revenues</b>  | <b>1,453,583</b> | <b>594,097</b>             | <b>1,214,617</b>        | <b>9,229</b>                | <b>3,271,526</b> | <b>(354,105)</b>        | <b>2,917,421</b>              |
| <b>EXPENDITURES / EXPENSES</b>                                     |                  |                            |                         |                             |                  |                         |                               |
| Service operations:  |                  |                            |                         |                             |                  |                         |                               |
| Purchased services, Note 9   | 435,037          |                            |                         |                             | 435,037          | (360,284)               | 74,753                        |
| Professional fees  | 215,182          | 7,767                      | 3,341                   | 9,471                       | 235,761          |                         | 235,761                       |
| Contracted services  | 40,250           | 8,700                      | 26,526                  |                             | 75,476           |                         | 75,476                        |
| Utilities  | 11,473           | 40,884                     |                         |                             | 52,357           |                         | 52,357                        |
| Surface water pumpage fees, Note 10                                |                  | 488,688                    |                         |                             | 488,688          |                         | 488,688                       |
| Repairs and maintenance  | 194,789          | 26,339                     |                         |                             | 221,128          |                         | 221,128                       |
| Other operating expenditures                                       | 11,982           | 12,507                     |                         |                             | 24,489           |                         | 24,489                        |
| Administrative expenditures  | 68,224           | 9,212                      | 965                     |                             | 78,401           |                         | 78,401                        |
| Depreciation   |                  |                            |                         |                             | 0                | 213,702                 | 213,702                       |
| Capital outlay / non-capital outlay                                | 86,270           |                            |                         | 490,202                     | 576,472          | (539,597)               | 36,875                        |
| Debt service:  |                  |                            |                         |                             |                  |                         |                               |
| Principal retirement   |                  |                            | 765,000                 |                             | 765,000          | (765,000)               | 0                             |
| Bond issuance expenditures   |                  |                            |                         |                             | 0                |                         | 0                             |
| Interest and fees  |                  |                            | 555,214                 |                             | 555,214          | 21,202                  | 576,416                       |
| <b>Total expenditures / expenses</b>                               | <b>1,063,207</b> | <b>594,097</b>             | <b>1,351,046</b>        | <b>499,673</b>              | <b>3,508,023</b> | <b>(1,429,977)</b>      | <b>2,078,046</b>              |
| Excess (deficiency) of<br>revenues over expenditures               | 390,376          | 0                          | (136,429)               | (490,444)                   | (236,497)        | 1,075,872               | 839,375                       |
| Net change in fund balances / net position                         | 390,376          | 0                          | (136,429)               | (490,444)                   | (236,497)        | 1,075,872               | 839,375                       |
| Beginning of year  | 2,306,723        | 30,000                     | 1,155,866               | 4,860,887                   | 8,353,476        | (6,506,495)             | 1,846,981                     |
| End of year  | \$ 2,697,099     | \$ 30,000                  | \$ 1,019,437            | \$ 4,370,443                | \$ 8,116,979     | \$ (5,430,623)          | \$ 2,686,356                  |

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61NOTES TO THE FINANCIAL STATEMENTSOCTOBER 31, 2019

## NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 61 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective May 2, 1973, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

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. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

The District is a participant in the Williamsburg Regional Sewage Treatment Plant operated by the Williamsburg Regional Sewage Authority (the "Authority"). Oversight of the Authority is exercised by the Board of Delegates of the Authority which is comprised of representatives from the participants. Based on the criteria described above, the Authority's financial activity has not been included in the District's financial statements. Transactions with and summary financial information of this joint venture are described in Note 9.

The District and Harris County Municipal Utility District No. 62 are participants in joint water plant facilities (the "Facilities"). Oversight of the Facilities is exercised by the Board of Directors of the District and financial activity of the Facilities has been included as a component unit in the financial statements of the District. The Facilities' General Fund has been reported as the Special Revenue Fund of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the joint water plant facilities .

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

|                     |             |
|---------------------|-------------|
| Plant and equipment | 10-45 years |
| Underground lines   | 45 years    |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Prepaid Surface Water Capital Contributions

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the terms of the Capital Contribution Contract (the "Contract") are recorded as either a repayment of the principal amount of the prepaid surface water capital contribution or interest earned on the prepayment at the interest rate of the applicable Contract. The principal is amortized based upon the life of the credits and the interest rate of the applicable Contract.

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

|   |                    |                     |
|---|--------------------|---------------------|
| Total fund balances, end of year  |                    | \$ 8,116,979        |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:                       |                    |                     |
| Capital assets, net   |                    | 13,920,189          |
| Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: |                    |                     |
| Bonds payable   | \$ (15,640,000)    |                     |
| Issuance discount, net of premium (to be amortized as interest expense)   | 295,125            |                     |
| Due to developers   | <u>(3,928,791)</u> | (19,273,666)        |
| The assets in the special revenue fund are owned by the District and other participants in the joint venture:                                   |                    |                     |
| The District's equity   | (20,000)           |                     |
| Other participants' equity  | <u>(10,000)</u>    | (30,000)            |
| Some receivables that do not provide current financial resources are not reported as receivables in the funds:                                  |                    |                     |
| Accrued penalty and interest on property taxes receivable   | 8,885              |                     |
| Due from other district   | 7,112              |                     |
| Uncollected property taxes  | <u>25,565</u>      | 41,562              |
| Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:                       |                    |                     |
| Accrued interest  |                    | <u>(88,708)</u>     |
| Net position, end of year   |                    | <u>\$ 2,686,356</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

|  |                  |                   |
|--|------------------|-------------------|
| Total net change in fund balances  |                  | \$ (236,497)      |
| <p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>   |                  |                   |
| Capital outlay   | \$ 539,597       |                   |
| Depreciation   | <u>(213,702)</u> | 325,895           |
| <p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p> |                  |                   |
| Principal reduction  |                  | 765,000           |
| <p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>   |                  |                   |
| Issuance discount, net of premium  |                  | (24,397)          |
| <p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>   |                  |                   |
| Accrued penalty and interest on property taxes receivable  | 2,431            |                   |
| Uncollected property taxes   | <u>3,748</u>     | 6,179             |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>  |                  |                   |
| Accrued interest   |                  | <u>3,195</u>      |
| Change in net position   |                  | <u>\$ 839,375</u> |

NOTE 4: CAPITAL ASSETS

At October 31, 2019, "Invested in capital assets, net of related debt" was \$(5,346,365). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended October 31, 2019, was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets not being depreciated:               |                              |                     |                     |                           |
| Land  | \$ 2,460,152                 | \$                  | \$                  | \$ 2,460,152              |
| Detention ponds                                     | 1,355,836                    |                     |                     | 1,355,836                 |
| Construction in progress                            | <u>6,659,115</u>             | <u>580,339</u>      | <u>2,530,994</u>    | <u>4,708,460</u>          |
| Total capital assets not being depreciated          | <u>10,475,103</u>            | <u>580,339</u>      | <u>2,530,994</u>    | <u>8,524,448</u>          |
| Depreciable capital assets:                         |                              |                     |                     |                           |
| Amenity pond improvements                           | 163,428                      |                     |                     | 163,428                   |
| Water system  | 3,595,396                    | 2,530,994           |                     | 6,126,390                 |
| Sewer system  | <u>2,541,688</u>             | <u>23,000</u>       |                     | <u>2,564,688</u>          |
| Total depreciable capital assets                    | <u>6,300,512</u>             | <u>2,553,994</u>    | <u>0</u>            | <u>8,854,506</u>          |
| Less accumulated depreciation for:                  |                              |                     |                     |                           |
| Amenity pond improvements                           | (65,368)                     | (8,171)             |                     | (73,539)                  |
| Water system  | (1,784,037)                  | (125,078)           |                     | (1,909,115)               |
| Sewer system  | <u>(1,395,658)</u>           | <u>(80,453)</u>     |                     | <u>(1,476,111)</u>        |
| Total accumulated depreciation                      | <u>(3,245,063)</u>           | <u>(213,702)</u>    | <u>0</u>            | <u>(3,458,765)</u>        |
| Total depreciable capital assets, net               | <u>3,055,449</u>             | <u>2,340,292</u>    | <u>0</u>            | <u>5,395,741</u>          |
| Total capital assets, net                           | <u>\$ 13,530,552</u>         | <u>\$ 2,920,631</u> | <u>\$ 2,530,994</u> | <u>\$ 13,920,189</u>      |
| Changes to capital assets:                          |                              |                     |                     |                           |
| Capital outlay                                      |                              | \$ 539,597          | \$                  |                           |
| Assets transferred to depreciable assets            |                              | 2,530,994           | 2,530,994           |                           |
| Increase in liability to developer for construction |                              | 63,742              |                     |                           |
| Less depreciation expense for the fiscal year       |                              | <u>(213,702)</u>    |                     |                           |
| Net increases / decreases to capital assets         |                              | <u>\$ 2,920,631</u> | <u>\$ 2,530,994</u> |                           |

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended October 31, 2019 was as follows:

|                                      | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due within<br/>One Year</u> |
|--------------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Bonds payable                        | \$ 16,405,000                | \$               | \$ 765,000        | \$ 15,640,000             | \$ 775,000                     |
| Deferred amounts:                    |                              |                  |                   |                           |                                |
| Issuance (discounts), net of premium | <u>(319,522)</u>             |                  | <u>(24,397)</u>   | <u>(295,125)</u>          | <u>(23,974)</u>                |
| Total bonds payable                  | <u>16,085,478</u>            | <u>0</u>         | <u>740,603</u>    | <u>15,344,875</u>         | <u>751,026</u>                 |
| Due to developer (See below)         | <u>3,865,049</u>             | <u>63,742</u>    | <u>0</u>          | <u>3,928,791</u>          | <u>-----</u>                   |
| Total long-term liabilities          | <u>\$ 19,950,527</u>         | <u>\$ 63,742</u> | <u>\$ 740,603</u> | <u>\$ 19,273,666</u>      | <u>\$ 751,026</u>              |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

Developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at October 31, 2019, was \$3,928,791. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

As of October 31, 2019, the debt service requirements on the bonds outstanding were as follows:

| <u>Fiscal<br/>Year</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|------------------------|----------------------|---------------------|----------------------|
| 2020                   | \$ 775,000           | \$ 532,247          | \$ 1,307,247         |
| 2021                   | 785,000              | 511,998             | 1,296,998            |
| 2022                   | 795,000              | 491,011             | 1,286,011            |
| 2023                   | 805,000              | 468,735             | 1,273,735            |
| 2024                   | 815,000              | 446,163             | 1,261,163            |
| 2025 - 2029            | 3,925,000            | 1,859,593           | 5,784,593            |
| 2030 - 2034            | 3,920,000            | 1,143,220           | 5,063,220            |
| 2035 - 2039            | 3,095,000            | 467,689             | 3,562,689            |
| 2040 - 2042            | <u>725,000</u>       | <u>52,500</u>       | <u>777,500</u>       |
|                        | <u>\$ 15,640,000</u> | <u>\$ 5,973,156</u> | <u>\$ 21,613,156</u> |

|                                      |               |
|--------------------------------------|---------------|
| Bonds voted                          | \$ 42,685,000 |
| Bonds approved for sale and sold     | 22,630,000    |
| Bonds voted and not issued           | 20,055,000    |
| Park bonds voted                     | 14,000,000    |
| Park bonds sold                      | 2,375,000     |
| Park bonds voted and not issued      | 11,625,000    |
| Refunding bonds voted                | 12,000,000    |
| Refunding bonds sold                 | 3,100,000     |
| Refunding bonds voted and not issued | 8,900,000     |

See Note 13 for a discussion of the Defined Area and the bonds voted for the Defined Area.

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 Series 2003 bonds are further payable from the net revenues from the operation of the waterworks and sewer system.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bond issues payable at October 31, 2019, were as follows:

|  | <u>Series 2003</u>     | <u>Series 2012</u>     | <u>Series 2013</u>     |
|--|------------------------|------------------------|------------------------|
| Amounts outstanding,<br>October 31, 2019     | \$350,000              | \$2,820,000            | \$2,955,000            |
| Interest rates                               | 4.25% to 4.50%         | 3.00% to 4.20%         | 2.50% to 5.00%         |
| Maturity dates, serially<br>beginning/ending | September 1, 2020/2024 | September 1, 2020/2033 | September 1, 2020/2037 |
| Interest payment dates                       | March 1/September 1    | March 1/September 1    | March 1/September 1    |
| Callable dates                               | September 1, 2012*     | September 1, 2020*     | September 1, 2021*     |
|  |                        |                        |                        |
|  | <u>Series 2015</u>     | <u>Series 2017</u>     | <u>Series 2018</u>     |
| Amounts outstanding,<br>October 31, 2019     | \$3,715,000            | \$1,775,000            | \$4,025,000            |
| Interest rates                               | 3.00% to 3.75%         | 2.00%                  | 3.00% to 3.75%         |
| Maturity dates, serially<br>beginning/ending | September 1, 2020/2039 | September 1, 2020/2025 | September 1, 2026/2042 |
| Interest payment dates                       | March 1/September 1    | March 1/September 1    | 1/September 1          |
| Callable dates                               | September 1, 2022*     | September 1, 2023*     | September 1, 2024*     |

\*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

**NOTE 6: PROPERTY TAXES**

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held April 6, 1974, the voters within the District authorized a maintenance tax not to exceed \$0.15 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

See Note 13 for a discussion of the Defined Area and the maintenance taxes voted for the Defined Area.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On September 24, 2019, the District levied the following ad valorem taxes for the 2019 tax year and the 2020 fiscal year on the adjusted taxable valuation of \$303,866,173:

|              | <u>Rate</u>      | <u>Amount</u>       |
|--------------|------------------|---------------------|
| Debt service | \$ 0.3650        | \$ 1,109,109        |
| Maintenance  | <u>0.1150</u>    | <u>349,445</u>      |
|              | <u>\$ 0.4800</u> | <u>\$ 1,458,554</u> |

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

|  |                     |
|--|---------------------|
| 2019 tax year total property tax levy                              | \$ 1,458,554        |
| 2019 tax year total property tax levy deferred to 2020 fiscal year | (1,458,554)         |
| 2018 tax year total property tax levy deferred to 2019 fiscal year | 1,363,671           |
| Appraisal district adjustments to prior year taxes                 | <u>198,769</u>      |
| Statement of Activities property tax revenues                      | <u>\$ 1,562,440</u> |

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$7,909,122 and the bank balance was \$7,975,077. Of the bank balance, \$1,441,799 was covered by federal insurance and \$6,533,278 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

|                       |                     |
|-----------------------|---------------------|
| Cash                  | \$ 458,606          |
| Temporary investments | <u>623,313</u>      |
|                       | <u>\$ 1,081,919</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital Projects Fund

For construction of capital assets:

|      |                     |
|------|---------------------|
| Cash | <u>\$ 4,380,032</u> |
|------|---------------------|

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At October 31, 2019, the District had physical damage and boiler and machinery coverage of \$5,469,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: JOINT VENTURES WITH OTHER GOVERNMENTAL UNITS

Wastewater Treatment Plant

The District is a participant with several other districts and developers in the Williamsburg Regional Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by the Williamsburg Regional Sewage Authority (the "Authority"). The Authority is governed by a Board of Delegates whose members are appointed by the boards of directors of the participating districts. Each participating district appoints one delegate.

The Authority was formed by agreements between Harris County Municipal Utility District No. 61 and West Harris County Municipal Utility District No. 2 on September 29, 1976, as amended November 1, 1980, to include Harris County Municipal Utility District Nos. 62, 63, 64, 65, and West Harris County Municipal Utility District No. 5. The governing contract has been amended on August 15, 2001, March 17, 2004, June 17, 2009, December 16, 2009, June 16, 2010 and June 20, 2012. On February 20, 2019, the participants adopted a resolution which acknowledged the ownership of each participant's capacity in the Williamsburg Regional Sewage Treatment Plant (the "Plant") as follows: Harris County Municipal Utility District No. 61 -- 14.38%; Harris County Municipal Utility District No. 62 -- 15.82%; Harris County Municipal Utility District No. 63 -- 8.60%; Harris County Municipal Utility District No. 64 -- 16.10%; Harris County Municipal Utility District No. 65 -- 16.91%; West Harris County Municipal Utility District No. 2 -- 15.31%; West Harris County Municipal Utility District No. 5 -- 9.45%; Westside Ventures, Ltd. -- 3.43%. Construction costs of the Plant are funded by the contribution of funds from each participating district. The Authority issues no debt. Each participant records its share of the capital assets of the Plant in its financial statements.

Each participant is responsible only for its share of the operating costs of the Authority which are allocated and billed monthly based upon each participant's equivalent sewer connections serviced by the Authority. During the year ended October 31, 2019, the District's share of the Authority's general operating expenditures were \$74,753. The District's share of the Authority's operating reserve was \$10,000 at October 31, 2019.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following summary financial data of the Authority's General Fund is presented for the Authority's fiscal year ended October 31, 2019:

|                                 | <u>Authority<br/>Total</u> | <u>District's<br/>Share</u> |
|---------------------------------|----------------------------|-----------------------------|
| Total assets                    | \$ 137,885                 |                             |
| Total liabilities               | <u>(67,885)</u>            |                             |
| Total fund balance              | 70,000                     | \$ 10,000                   |
| Operating reserve               | <u>(70,000)</u>            | <u>(10,000)</u>             |
| Undesignated fund balance       | <u>\$ 0</u>                | <u>\$ 0</u>                 |
| <br>                            |                            |                             |
| Total revenues                  | \$ 772,426                 | \$ 74,753                   |
| Total expenditures              | <u>(772,426)</u>           | <u>(74,753)</u>             |
| Excess revenues (expenditures)  | 0                          | 0                           |
| <br>                            |                            |                             |
| Fund balance, beginning of year | <u>70,000</u>              | <u>10,000</u>               |
| <br>                            |                            |                             |
| Fund balance, end of year       | <u>\$ 70,000</u>           | <u>\$ 10,000</u>            |

Joint Water Plant Facilities

On July 23, 1979, the District, Harris County Municipal Utility District No. 62 (District No. 62) and West Harris County Municipal Utility District No. 2 (District No. 2) entered into a contract for the construction, operation and ownership of joint water plant facilities (the "Facilities"). The contract was for a term of 40 years. On October 8, 1998, the District approved an Agreement for Sale and Assignment of District No. 2's rights in the contract to Harris County Municipal Utility District No. 71 (District No. 71). On March 25, 2003, the District purchased District No. 71's rights in the contract. Oversight of the Facilities is exercised by the Board of Directors of the District. The Facilities issues no debt.

The districts share in the costs of operating the Facilities based on the volume of water received by each district. Capital repairs and improvements are shared based on capacity owned. The districts are billed monthly. During the fiscal year ended October 31, 2019, the District's share of Facilities' general operating expenditures were \$360,284. Activity of the Facilities is accounted for in the Special Revenue Fund of the District. The District has advanced \$20,000 of the Facilities' \$30,000 operating reserve.

Reimbursement of Drainage Easement Costs

Prior to 1982, the District paid \$100,000 for a drainage easement which benefits other districts. The Commission recommended that the other districts reimburse the District for the pro rata share of the easement plus interest. The District received appropriate reimbursement from several of the other districts during prior years. Additional amounts are due from West Harris County Municipal Utility District No. 5 (\$7,112 excluding interest). These amounts are to be funded from future bond sales and are recorded as receivables in the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority (the "Authority") was created by House Bill 1842, Acts of the 77th Legislature, Regular Session 2001. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." Surface water pumpage fees are payable to the Authority through the water supply contract with District No. 62 (see Note 9). The well pumpage fees payable for the joint water plant to the Authority for the fiscal year ended October 31, 2019, were \$488,688. The District billed its customers \$303,534 during the fiscal year to pay for the District's share of the fees charged by the Authority. In addition, the District received credits of \$24,048 under the provisions of the Capital Contribution Contract described below.

In 2006, the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$355,443 to the Authority during the fiscal year ended October 31, 2007, to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$12,024 in 2007 and \$24,048 annually for the next 25 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2007 at a rate of 4.64% over 26 years.

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under the terms of the Contracts are recorded as either a repayment of the principal amount of the prepaid surface water capital contribution or interest earned on the prepayment at the interest rate of the applicable Contract. The principal is amortized based upon the life of the credits and the interest rate of the applicable Contract. During the fiscal year ended October 31, 2019, the District received credits of \$24,048 under the provisions of the Contract. \$12,750 of this amount was recorded as principal and \$11,298 was recorded as interest.

A summary of the amortization of the remaining scheduled credits for the prepaid capital contributions is as follows:

| Credits Due During<br>Fiscal Years<br>Ending October 31 | Principal         | Interest         | Total             |
|---|-------------------|------------------|-------------------|
| 2020  | \$ 13,354         | \$ 10,694        | \$ 24,048         |
| 2021  | 13,987            | 10,061           | 24,048            |
| 2022  | 14,649            | 9,399            | 24,048            |
| 2023  | 15,343            | 8,705            | 24,048            |
| 2024  | 16,070            | 7,978            | 24,048            |
| 2025-2029   | 92,523            | 27,717           | 120,240           |
| 2030-2033   | 70,697            | 5,455            | 76,152            |
|   | <u>\$ 236,623</u> | <u>\$ 80,009</u> | <u>\$ 316,632</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT

Utilizing a provision of Texas law, the City of Houston (“City”) and the District entered into the Second Amended and Restated Strategic Partnership Agreement (“SPA”) effective as of June 5, 2014, which superseded and replaced the SPA dated April 11, 2003, as amended effective December 14, 2009. Under the terms of the SPA, the City annexed a portion of the District for the limited purposes of imposition of the City’s Sales and Use Tax and certain municipal fire codes banning fireworks. No other City services are provided. The SPA states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City imposed a Sales and Use Tax within the boundaries of the SPA at the time of the limited-purpose annexation of the Partial District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$143,409 from the City for the fiscal year ended October 31, 2019, of which \$38,692 was receivable at that date.

## NOTE 12: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the “HGSD”). These certificates expire in 40 years (certificates issued after August 1, 2001 expire in 20 years) and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the District. Certificates can also be used in lieu of a disincentive fee assessed by the HGSD for ground water pumpage in excess of the District’s permit as amended. At October 31, 2019, the District had in its possession certificates totaling 25,250,400 gallons of water (9,542,400 40-year certificates and 15,708,000 20-year certificates). The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$9,487 at October 31, 2019.

## NOTE 13: DEFINED AREA

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, and Chapter 8002, Texas Special District Local Laws Code, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On August 16, 2017, the District approved the creation of a defined area encompassing approximately 92.8448 acres within the District (the “Defined Area”), approved a final engineering report and plan for improvements in the Defined Area (the “Improvement Plan”), and issued an order calling a bond election and maintenance and operation tax election within the Defined Area (the “Defined Area Election”).

All property within the Defined Area is also within the District and is subject to the District tax rate. Upon the authorization of the voters in the Defined Area, the Defined Area may also be subject to a Defined Area tax rate. The District may also issue additional bonds in the Defined Area, subject to the authorization of the voters in the Defined Area and the approval of the TCEQ.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At the Defined Area Election on November 7, 2017 the voters within the Defined Area approved the following: a proposition on the issuance of the bonds of the District for the provision of recreational facilities and refunding bonds in the maximum aggregate principal amount of \$18,300,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of bonds of the District for the provision of road facilities in the Defined Area and refunding bonds in the maximum aggregate principal amount of \$49,500,000 and the levy of taxes in payment of such bonds within the Defined Area; a proposition on the issuance of the bonds of the District for the provision of a waterworks system, sanitary sewer system, and a drainage and storm sewer system and refunding bonds in the maximum aggregate principal amount of \$131,000,000 and the levy of taxes in payment of such bonds for the Defined Area; and propositions on the levy of an operation and maintenance tax not to exceed \$1.00 per \$100 valuation for operation and maintenance purposes on all property subject to taxation within the Defined Area and the levy of an operation and maintenance tax not to exceed \$0.25 per \$100 valuation for operation and maintenance purposes on road facilities on all property subject to taxation within the Defined Area, for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Westside Ventures, Ltd., which plans to develop a mixed-use commercial, retail, and residential city center development in the Defined Area.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND  
FOR THE YEAR ENDED OCTOBER 31, 2019

|   | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | Variance with                          |
|---|-------------------------|---------------------|---------------------|--|
|   | <u>Original</u>         | <u>Final</u>        |                     | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>                                 |                         |                     |                     |  |
| Property taxes                                  | \$ 374,544              | \$ 374,544          | \$ 374,029          | \$ (515)                               |
| Water service                                   | 265,000                 | 265,000             | 270,518             | 5,518                                  |
| Sewer service                                   | 170,000                 | 170,000             | 175,320             | 5,320                                  |
| Surface water fees                              | 248,000                 | 248,000             | 303,534             | 55,534                                 |
| Penalty   | 0                       | 0                   | 11,689              | 11,689                                 |
| Tap connection and inspection fees              | 0                       | 0                   | 83,400              | 83,400                                 |
| Payment in lieu of taxes                        | 0                       | 0                   | 60,308              | 60,308                                 |
| Sales and Use Taxes                             | 420,000                 | 420,000             | 143,409             | (276,591)                              |
| Interest on prepaid surface water capital cont. | 0                       | 0                   | 11,298              | 11,298                                 |
| Interest on deposits                            | 8,000                   | 8,000               | 13,915              | 5,915                                  |
| Other revenues                                  | 1,000                   | 1,000               | 6,163               | 5,163                                  |
| <b>TOTAL REVENUES</b>                           | <u>1,486,544</u>        | <u>1,486,544</u>    | <u>1,453,583</u>    | <u>(32,961)</u>                        |
| <b>EXPENDITURES</b>                             |                         |                     |                     |  |
| Service operations:                             |                         |                     |                     |  |
| Purchased services                              | 460,716                 | 460,716             | 435,037             | (25,679)                               |
| Professional fees                               | 175,500                 | 175,500             | 215,182             | 39,682                                 |
| Contracted services                             | 45,000                  | 45,000              | 40,250              | (4,750)                                |
| Utilities                                       | 11,000                  | 11,000              | 11,473              | 473                                    |
| Repairs and maintenance                         | 220,000                 | 220,000             | 194,789             | (25,211)                               |
| Other operating expenditures                    | 11,800                  | 11,800              | 11,982              | 182                                    |
| Administrative expenditures                     | 81,350                  | 81,350              | 68,224              | (13,126)                               |
| Capital outlay                                  | 127,280                 | 127,280             | 86,270              | (41,010)                               |
| <b>TOTAL EXPENDITURES</b>                       | <u>1,132,646</u>        | <u>1,132,646</u>    | <u>1,063,207</u>    | <u>(69,439)</u>                        |
| <b>EXCESS REVENUES (EXPENDITURES)</b>           | 353,898                 | 353,898             | 390,376             | 36,478                                 |
| <b>FUND BALANCE, BEGINNING OF YEAR</b>          | <u>2,306,723</u>        | <u>2,306,723</u>    | <u>2,306,723</u>    | <u>0</u>                               |
| <b>FUND BALANCE, END OF YEAR</b>                | <u>\$ 2,660,621</u>     | <u>\$ 2,660,621</u> | <u>\$ 2,697,099</u> | <u>\$ 36,478</u>                       |

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND  
FOR THE YEAR ENDED OCTOBER 31, 2019

|   | <u>Budgeted Amounts</u> |                  | <u>Actual</u>    | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|---|-------------------------|------------------|------------------|---|
|   | <u>Original</u>         | <u>Final</u>     |                  |   |
| <b>REVENUES</b>                                 |                         |                  |                  |   |
| From participants in plant:                     |                         |                  |                  |   |
| Harris County Municipal Utility District No. 61 | \$ 368,716              | \$ 368,716       | \$ 360,284       | \$ (8,432)  |
| Harris County Municipal Utility District No. 62 | 241,034                 | 241,034          | 233,769          | (7,265)   |
| Interest on deposits                            | 50                      | 50               | 44               | (6)   |
| <b>TOTAL REVENUES</b>                           | <u>609,800</u>          | <u>609,800</u>   | <u>594,097</u>   | <u>(15,703)</u>   |
| <b>EXPENDITURES</b>                             |                         |                  |                  |   |
| Service operations:                             |                         |                  |                  |   |
| Professional fees                               | 15,200                  | 15,200           | 7,767            | (7,433)   |
| Contracted services                             | 9,100                   | 9,100            | 8,700            | (400)   |
| Utilities                                       | 50,000                  | 50,000           | 40,884           | (9,116)   |
| Surface water pumpage fees                      | 470,000                 | 470,000          | 488,688          | 18,688  |
| Repairs and maintenance                         | 40,000                  | 40,000           | 26,339           | (13,661)  |
| Other operating expenditures                    | 15,250                  | 15,250           | 12,507           | (2,743)   |
| Administrative expenditures                     | 10,200                  | 10,200           | 9,212            | (988)   |
| Capital outlay                                  | 0                       | 0                | 0                | 0   |
| <b>TOTAL EXPENDITURES</b>                       | <u>609,750</u>          | <u>609,750</u>   | <u>594,097</u>   | <u>(15,653)</u>   |
| <b>EXCESS REVENUES (EXPENDITURES)</b>           | 50                      | 50               | 0                | (50)  |
| <b>FUND BALANCE, BEGINNING OF YEAR</b>          | <u>30,000</u>           | <u>30,000</u>    | <u>30,000</u>    | <u>0</u>  |
| <b>FUND BALANCE, END OF YEAR</b>                | <u>\$ 30,050</u>        | <u>\$ 30,050</u> | <u>\$ 30,000</u> | <u>\$ (50)</u>  |

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
OCTOBER 31, 2019

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES

OCTOBER 31, 2019

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

|        | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1000 Gallons Over Minimum</u> | <u>Usage Levels</u> |
|--------|-----------------------|----------------------|----------------------|---|---------------------|
| WATER: | \$10.00               | 5,000                | N                    | \$1.35                                    | 5,001 to 15,000     |
|        |                       |                      |                      | 1.60                                      | 15,001 to 25,000    |
|        |                       |                      |                      | 1.85                                      | 25,001 to 35,000    |
|        |                       |                      |                      | 2.35                                      | Over 35,000         |

WASTEWATER: \$15.00 Y

SURCHARGE: \$3.10 per 1,000 gallons of water used. – WHCRWA surface water fees.

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$16.75 Wastewater: \$15.00 Surcharge: \$31.00



HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

SCHEDULE OF SERVICES AND RATES (Continued)

OCTOBER 31, 2019

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         | 0                        | 0                         | 1.0                 | 0                   |
| < or = 3/4"       | 562                      | 553                       | 1.0                 | 553                 |
| 1"                | 10                       | 10                        | 2.5                 | 25                  |
| 1-1/2"            | 5                        | 5                         | 5.0                 | 25                  |
| 2"                | 43                       | 42                        | 8.0                 | 336                 |
| 3"                | 0                        | 0                         | 15.0                | 0                   |
| 4"                | 4                        | 3                         | 25.0                | 75                  |
| 6"                | 1                        | 1                         | 50.0                | 50                  |
| 8"                | 2                        | 2                         | 80.0                | 160                 |
| 10"               | 0                        | 0                         | 115.0               | 0                   |
| Total Water       | <u>627</u>               | <u>616</u>                |                     | <u>1,224</u>        |
| Total Wastewater  | <u>600</u>               | <u>589</u>                | 1.0                 | <u>589</u>          |

\*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

|   |                |
|---|----------------|
| Gallons pumped into system (unaudited):         | <u>166,330</u> |
| Gallons billed to No. 61 customers (unaudited): | <u>98,942</u>  |
| Gallons sold to other districts (unaudited):    | <u>63,401</u>  |
| Total gallons billed to customers (unaudited):  | <u>162,343</u> |

Water Accountability Ratio  
(Gallons billed/ gallons pumped): 98%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

EXPENDITURES

FOR THE YEAR ENDED OCTOBER 31, 2019

|                               | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|-------------------------------|-------------------------|-------------------------------------|----------------------------------|--------------------------------------|---|
| CURRENT                       |                         |                                     |                                  |                                      |   |
| Purchased services:           |                         |                                     |                                  |                                      |   |
| Water                         | \$ 360,284              | \$                                  | \$                               | \$                                   | \$ 360,284                              |
| Sewer                         | 74,753                  |                                     |                                  |                                      | 74,753                                  |
|                               | <u>435,037</u>          | <u>0</u>                            | <u>0</u>                         | <u>0</u>                             | <u>435,037</u>                          |
| Professional fees:            |                         |                                     |                                  |                                      |   |
| Auditing                      | 10,950                  | 1,200                               |                                  |                                      | 12,150                                  |
| Legal                         | 96,480                  | 909                                 | 3,341                            | 9,471                                | 110,201                                 |
| Engineering                   | 107,752                 | 5,658                               |                                  |                                      | 113,410                                 |
|                               | <u>215,182</u>          | <u>7,767</u>                        | <u>3,341</u>                     | <u>9,471</u>                         | <u>235,761</u>                          |
| Contracted services:          |                         |                                     |                                  |                                      |   |
| Bookkeeping                   | 14,116                  | 5,100                               |                                  |                                      | 19,216                                  |
| Operation and billing         | 26,134                  | 3,600                               |                                  |                                      | 29,734                                  |
| Tax assessor-collector        |                         |                                     | 14,784                           |                                      | 14,784                                  |
| Central appraisal district    |                         |                                     | 11,742                           |                                      | 11,742                                  |
|                               | <u>40,250</u>           | <u>8,700</u>                        | <u>26,526</u>                    | <u>0</u>                             | <u>75,476</u>                           |
| Utilities                     | <u>11,473</u>           | <u>40,884</u>                       | <u>0</u>                         | <u>0</u>                             | <u>52,357</u>                           |
| Surface water pumpage fees    | <u>0</u>                | <u>488,688</u>                      | <u>0</u>                         | <u>0</u>                             | <u>488,688</u>                          |
| Repairs and maintenance       | <u>194,789</u>          | <u>26,339</u>                       | <u>0</u>                         | <u>0</u>                             | <u>221,128</u>                          |
| Other operating expenditures: |                         |                                     |                                  |                                      |   |
| Chemicals                     | 810                     | 12,507                              |                                  |                                      | 13,317                                  |
| Laboratory costs              | 8,339                   |                                     |                                  |                                      | 8,339                                   |
| TCEQ assessment               | 2,223                   |                                     |                                  |                                      | 2,223                                   |
| Other                         | 610                     |                                     |                                  |                                      | 610                                     |
|                               | <u>11,982</u>           | <u>12,507</u>                       | <u>0</u>                         | <u>0</u>                             | <u>24,489</u>                           |
| Administrative expenditures:  |                         |                                     |                                  |                                      |   |
| Director's fees               | 16,050                  |                                     |                                  |                                      | 16,050                                  |
| Office supplies and postage   | 33,248                  | 633                                 |                                  |                                      | 33,881                                  |
| Insurance                     | 6,847                   | 8,579                               | 50                               |                                      | 15,476                                  |
| Permit fees                   | 1,563                   |                                     |                                  |                                      | 1,563                                   |
| Other                         | 10,516                  |                                     | 915                              |                                      | 11,431                                  |
|                               | <u>68,224</u>           | <u>9,212</u>                        | <u>965</u>                       | <u>0</u>                             | <u>78,401</u>                           |
| CAPITAL OUTLAY                |                         |                                     |                                  |                                      |   |
| Authorized expenditures       | 49,395                  |                                     |                                  | 490,202                              | 539,597                                 |
| Tap connection fees           | 36,875                  |                                     |                                  |                                      | 36,875                                  |
|                               | <u>86,270</u>           | <u>0</u>                            | <u>0</u>                         | <u>490,202</u>                       | <u>576,472</u>                          |
| DEBT SERVICE                  |                         |                                     |                                  |                                      |   |
| Principal retirement          | <u>0</u>                | <u>0</u>                            | 765,000                          | <u>0</u>                             | 765,000                                 |
| Interest and fees:            |                         |                                     |                                  |                                      |   |
| Interest                      |                         |                                     | 551,414                          |                                      | 551,414                                 |
| Paying agent fees             |                         |                                     | 3,800                            |                                      | 3,800                                   |
|                               | <u>0</u>                | <u>0</u>                            | <u>555,214</u>                   | <u>0</u>                             | <u>555,214</u>                          |
| TOTAL EXPENDITURES            | <u>\$ 1,063,207</u>     | <u>\$ 594,097</u>                   | <u>\$ 1,351,046</u>              | <u>\$ 499,673</u>                    | <u>\$ 3,508,023</u>                     |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

ANALYSIS OF CHANGES IN DEPOSITS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED OCTOBER 31, 2019

|  | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|-------------------------|-------------------------------------|----------------------------------|--------------------------------------|---|
| <b>SOURCES OF DEPOSITS</b>                                     |                         |                                     |                                  |                                      |   |
| Cash receipts from revenues<br>excluding maintenance taxes     | \$ 1,024,151            | \$ 551,261                          | \$ 1,202,285                     | \$ 9,229                             | \$ 2,786,926                            |
| Maintenance tax collections                                    |                         |                                     | 370,985                          |                                      | 370,985                                 |
| Maintenance tax transfers                                      | 357,069                 |                                     |                                  |                                      | 357,069                                 |
| Receipt of interfund receivable                                | 47,837                  |                                     | 12,698                           |                                      | 60,535                                  |
| Principal repayment from<br>surface water capital contribution | 12,750                  |                                     |                                  |                                      | 12,750                                  |
| Overpayments from taxpayers                                    |                         |                                     | 17,377                           |                                      | 17,377                                  |
| <b>TOTAL DEPOSITS PROVIDED</b>                                 | <u>1,441,807</u>        | <u>551,261</u>                      | <u>1,603,345</u>                 | <u>9,229</u>                         | <u>3,605,642</u>                        |
| <b>APPLICATIONS OF DEPOSITS</b>                                |                         |                                     |                                  |                                      |   |
| Cash disbursements for:  |                         |                                     |                                  |                                      |   |
| Current expenditures   | 946,237                 | 577,280                             | 23,875                           | 9,471                                | 1,556,863                               |
| Capital outlay   | 86,270                  |                                     |                                  | 877,787                              | 964,057                                 |
| Debt service   |                         |                                     | 1,320,214                        |                                      | 1,320,214                               |
| Developer construction (from advance)                          | 174,724                 |                                     |                                  |                                      | 174,724                                 |
| Payment of interfund payable                                   | 12,698                  |                                     |                                  | 47,837                               | 60,535                                  |
| Decrease in customer and builder deposits                      | 1,201                   |                                     |                                  |                                      | 1,201                                   |
| Maintenance tax transfers                                      |                         |                                     | 357,069                          |                                      | 357,069                                 |
| Refund of taxpayer overpayments                                |                         |                                     | 183                              |                                      | 183                                     |
| <b>TOTAL DEPOSITS APPLIED</b>                                  | <u>1,221,130</u>        | <u>577,280</u>                      | <u>1,701,341</u>                 | <u>935,095</u>                       | <u>4,434,846</u>                        |
| <b>INCREASE (DECREASE) IN DEPOSITS</b>                         | 220,677                 | (26,019)                            | (97,996)                         | (925,866)                            | (829,204)                               |
| <b>DEPOSITS BALANCES, BEGINNING OF YEAR</b>                    | <u>2,225,549</u>        | <u>26,964</u>                       | <u>1,179,915</u>                 | <u>5,305,898</u>                     | <u>8,738,326</u>                        |
| <b>DEPOSITS BALANCES, END OF YEAR</b>                          | <u>\$ 2,446,226</u>     | <u>\$ 945</u>                       | <u>\$ 1,081,919</u>              | <u>\$ 4,380,032</u>                  | <u>\$ 7,909,122</u>                     |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61SCHEDULE OF CERTIFICATES OF DEPOSITOCTOBER 31, 2019

|                         | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Year End<br/>Balance</u> | <u>Accrued<br/>Interest<br/>Receivable</u> |
|-------------------------|--------------------------|--------------------------|-----------------------------|--|
| GENERAL FUND            |                          |                          |                             |  |
| Certificates of Deposit |                          |                          |                             |  |
| No. 1852005353          | 2.65%                    | 7/29/20                  | \$ 209,619                  | \$ 1,430                                   |
| No. 95900011897904      | 2.10%                    | 2/21/20                  | <u>208,241</u>              | <u>827</u>                                 |
|                         |                          |                          | <u>\$ 417,860</u>           | <u>\$ 2,257</u>                            |
| DEBT SERVICE FUND       |                          |                          |                             |  |
| Certificates of Deposit |                          |                          |                             |  |
| No. 12843               | 2.25%                    | 2/14/20                  | \$ 208,235                  | \$ 976                                     |
| No. 446                 | 2.35%                    | 2/19/20                  | 206,670                     | 3,380                                      |
| No. 9009003939          | 2.05%                    | 2/13/20                  | <u>208,408</u>              | <u>901</u>                                 |
|                         |                          |                          | <u>\$ 623,313</u>           | <u>\$ 5,257</u>                            |
| Total – All Funds       |                          |                          | <u>\$ 1,041,173</u>         | <u>\$ 7,514</u>                            |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED OCTOBER 31, 2019

|   | <u>Maintenance<br/>Taxes</u> | <u>Debt<br/>Service<br/>Taxes</u> |
|---|------------------------------|-----------------------------------|
| RECEIVABLE, BEGINNING OF YEAR                 | \$ 322,018                   | \$ 1,015,934                      |
| Additions and corrections to prior year taxes | <u>47,925</u>                | <u>150,844</u>                    |
| Adjusted receivable, beginning of year        | 369,943                      | 1,166,778                         |
| 2019 ADJUSTED TAX ROLL                        | <u>349,445</u>               | <u>1,109,109</u>                  |
| Total to be accounted for                     | 719,388                      | 2,275,887                         |
| Tax collections: Current tax year             | (8,345)                      | (26,486)                          |
| Prior tax years                               | <u>(362,640)</u>             | <u>(1,148,516)</u>                |
| RECEIVABLE, END OF YEAR                       | <u>\$ 348,403</u>            | <u>\$ 1,100,885</u>               |
| RECEIVABLE, BY TAX YEAR                       |                              |                                   |
| 2011  | \$ 4                         | \$ 9                              |
| 2012  | 3                            | 9                                 |
| 2013  | 3                            | 9                                 |
| 2014  | 90                           | 251                               |
| 2015  | 86                           | 202                               |
| 2016  | 2,354                        | 5,335                             |
| 2017  | 2,743                        | 6,035                             |
| 2018  | 2,020                        | 6,412                             |
| 2019  | <u>341,100</u>               | <u>1,082,623</u>                  |
| RECEIVABLE, END OF YEAR                       | <u>\$ 348,403</u>            | <u>\$ 1,100,885</u>               |

Fiscal year 2019 General Fund property tax revenue of \$374,029 under the modified accrual basis of accounting is comprised of prior tax year collections of \$362,640 during fiscal year 2019 and 2018 tax year collections of \$11,389 during fiscal year 2018.

Fiscal year 2019 Debt Service Fund property tax revenue of \$1,184,663 under the modified accrual basis of accounting is comprised of prior tax year collections of \$1,148,516 during fiscal year 2019 and 2018 tax year collections of \$36,147 during fiscal year 2018.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2019

| ADJUSTED PROPERTY VALUATIONS<br>AS OF JANUARY 1 OF TAX YEAR | <u>2019</u>                  | <u>2018</u>               | <u>2017</u>               | <u>2016</u>               |
|---|------------------------------|---------------------------|---------------------------|---------------------------|
| Land  | \$ 74,168,557                | \$ 102,560,054            | \$ 100,600,029            | \$ 98,909,311             |
| Improvements  | 244,557,507                  | 220,962,136               | 213,248,998               | 206,390,309               |
| Personal property   | 33,366,464                   | 52,288,447                | 47,431,141                | 48,378,081                |
| Less exemptions   | <u>(48,226,355)</u>          | <u>(51,123,440)</u>       | <u>(48,954,729)</u>       | <u>(47,398,184)</u>       |
| <br>TOTAL PROPERTY VALUATIONS                               | <br><u>\$ 303,866,173***</u> | <br><u>\$ 324,687,197</u> | <br><u>\$ 312,325,439</u> | <br><u>\$ 306,279,517</u> |
| <br>TAX RATES PER \$100 VALUATION                           |                              |                           |                           |                           |
| Debt service tax rates                                      | \$ 0.36500                   | \$ 0.36500                | \$ 0.33000                | \$ 0.34000                |
| Maintenance tax rates*                                      | <u>0.11500</u>               | <u>0.11500</u>            | <u>0.15000</u>            | <u>0.15000</u>            |
| <br>TOTAL TAX RATES PER<br>\$100 VALUATION                  | <br><u>\$ 0.48000</u>        | <br><u>\$ 0.48000</u>     | <br><u>\$ 0.48000</u>     | <br><u>\$ 0.49000</u>     |
| <br>TAX ROLLS   | <br><u>\$ 1,458,554</u>      | <br><u>\$ 1,558,495</u>   | <br><u>\$ 1,499,152</u>   | <br><u>\$ 1,500,700</u>   |
| <br>PERCENT OF TAXES COLLECTED<br>TO TAXES LEVIED           | <br><u>2.4%**</u>            | <br><u>99.5 %</u>         | <br><u>99.4 %</u>         | <br><u>99.5 %</u>         |

\*Maximum tax rate approved by voters on April 6, 1974: \$0.15

See Note 13 for a discussion of the Defined Area and the maintenance taxes voted for the Defined Area.

\*\*The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

\*\*\*Approximately \$85,646,000 additional valuation was certified subsequent to October 31, 2019.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS  
OCTOBER 31, 2019

| Series 2003                                     |                                 |   |            |
|---|---------------------------------|---|------------|
| Due During<br>Fiscal Years<br>Ending October 31 | Principal<br>Due<br>September 1 | Interest Due<br>March 1,<br>September 1 | Total      |
| 2020  | \$ 70,000                       | \$ 15,400                               | \$ 85,400  |
| 2021  | 70,000                          | 12,425                                  | 82,425     |
| 2022  | 70,000                          | 9,450                                   | 79,450     |
| 2023  | 70,000                          | 6,300                                   | 76,300     |
| 2024  | 70,000                          | 3,150                                   | 73,150     |
| TOTALS  | \$ 350,000                      | \$ 46,725                               | \$ 396,725 |

| Series 2012                                     |                                 |   |              |
|---|---------------------------------|---|--------------|
| Due During<br>Fiscal Years<br>Ending October 31 | Principal<br>Due<br>September 1 | Interest Due<br>March 1,<br>September 1 | Total        |
| 2020  | \$ 150,000                      | \$ 105,530                              | \$ 255,530   |
| 2021  | 150,000                         | 101,030                                 | 251,030      |
| 2022  | 150,000                         | 96,530                                  | 246,530      |
| 2023  | 150,000                         | 91,654                                  | 241,654      |
| 2024  | 150,000                         | 86,780                                  | 236,780      |
| 2025  | 225,000                         | 81,530                                  | 306,530      |
| 2026  | 225,000                         | 73,654                                  | 298,654      |
| 2027  | 225,000                         | 65,218                                  | 290,218      |
| 2028  | 225,000                         | 56,780                                  | 281,780      |
| 2029  | 225,000                         | 47,780                                  | 272,780      |
| 2030  | 225,000                         | 38,780                                  | 263,780      |
| 2031  | 230,000                         | 29,780                                  | 259,780      |
| 2032  | 240,000                         | 20,580                                  | 260,580      |
| 2033  | 250,000                         | 10,500                                  | 260,500      |
| TOTALS  | \$ 2,820,000                    | \$ 906,126                              | \$ 3,726,126 |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
OCTOBER 31, 2019

| <u>Due During<br/>Fiscal Years<br/>Ending October 31</u> | <u>Series 2013</u>                       |  |                     |
|--|--|--|---------------------|
|  | <u>Principal<br/>Due<br/>September 1</u> | <u>Interest Due<br/>March 1,<br/>September 1</u> | <u>Total</u>        |
| 2020   | \$ 175,000                               | \$ 114,912                                       | \$ 289,912          |
| 2021   | 175,000                                  | 110,538  | 285,538             |
| 2022   | 175,000                                  | 105,726  | 280,726             |
| 2023   | 175,000                                  | 100,474  | 275,474             |
| 2024   | 175,000                                  | 95,226   | 270,226             |
| 2025   | 175,000                                  | 89,538   | 264,538             |
| 2026   | 175,000                                  | 83,412   | 258,412             |
| 2027   | 175,000                                  | 76,850   | 251,850             |
| 2028   | 175,000                                  | 69,850   | 244,850             |
| 2029   | 175,000                                  | 62,850   | 237,850             |
| 2030   | 175,000                                  | 55,850   | 230,850             |
| 2031   | 175,000                                  | 48,412   | 223,412             |
| 2032   | 175,000                                  | 40,976   | 215,976             |
| 2033   | 180,000                                  | 33,100   | 213,100             |
| 2034   | 125,000                                  | 25,000   | 150,000             |
| 2035   | 125,000                                  | 18,750   | 143,750             |
| 2036   | 125,000                                  | 12,500   | 137,500             |
| 2037   | 125,000                                  | 6,250  | 131,250             |
| TOTALS   | <u>\$ 2,955,000</u>                      | <u>\$ 1,150,214</u>                              | <u>\$ 4,105,214</u> |

See accompanying independent auditor's report.



HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
OCTOBER 31, 2019

| <u>Due During<br/>Fiscal Years<br/>Ending October 31</u> | <u>Series 2015</u>                       |  |                     |
|--|--|--|---------------------|
|  | <u>Principal<br/>Due<br/>September 1</u> | <u>Interest Due<br/>March 1,<br/>September 1</u> | <u>Total</u>        |
| 2020   | \$ 80,000                                | \$ 127,780                                       | \$ 207,780          |
| 2021   | 90,000                                   | 125,380  | 215,380             |
| 2022   | 100,000                                  | 122,680  | 222,680             |
| 2023   | 110,000                                  | 119,682  | 229,682             |
| 2024   | 120,000                                  | 116,382  | 236,382             |
| 2025   | 130,000                                  | 112,782  | 242,782             |
| 2026   | 140,000                                  | 108,882  | 248,882             |
| 2027   | 150,000                                  | 104,682  | 254,682             |
| 2028   | 160,000                                  | 100,180  | 260,180             |
| 2029   | 170,000                                  | 94,980   | 264,980             |
| 2030   | 180,000                                  | 89,456   | 269,456             |
| 2031   | 190,000                                  | 83,382   | 273,382             |
| 2032   | 200,000                                  | 76,968   | 276,968             |
| 2033   | 200,000                                  | 69,968   | 269,968             |
| 2034   | 225,000                                  | 62,968   | 287,968             |
| 2035   | 250,000                                  | 54,812   | 304,812             |
| 2036   | 275,000                                  | 45,750   | 320,750             |
| 2037   | 300,000                                  | 35,438   | 335,438             |
| 2038   | 320,000                                  | 24,188   | 344,188             |
| 2039   | 325,000                                  | 12,188   | 337,188             |
| TOTALS   | <u>\$ 3,715,000</u>                      | <u>\$ 1,688,528</u>                              | <u>\$ 5,403,528</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
OCTOBER 31, 2019

|   | Series 2017                     |   |              |
|---|---------------------------------|---|--------------|
| Due During<br>Fiscal Years<br>Ending October 31 | Principal<br>Due<br>September 1 | Interest Due<br>March 1,<br>September 1 | Total        |
| 2020  | \$ 300,000                      | \$ 35,500                               | \$ 335,500   |
| 2021  | 300,000                         | 29,500                                  | 329,500      |
| 2022  | 300,000                         | 23,500                                  | 323,500      |
| 2023  | 300,000                         | 17,500                                  | 317,500      |
| 2024  | 300,000                         | 11,500                                  | 311,500      |
| 2025  | 275,000                         | 5,500                                   | 280,500      |
| TOTALS  | \$ 1,775,000                    | \$ 123,000                              | \$ 1,898,000 |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
OCTOBER 31, 2019

| <u>Due During<br/>Fiscal Years<br/>Ending October 31</u> | <u>Series 2018</u>                       |  |                     |
|--|--|--|---------------------|
|  | <u>Principal<br/>Due<br/>September 1</u> | <u>Interest Due<br/>March 1,<br/>September 1</u> | <u>Total</u>        |
| 2020   | \$                                       | \$ 133,125                                       | \$ 133,125          |
| 2021   |  | 133,125  | 133,125             |
| 2022   |  | 133,125  | 133,125             |
| 2023   |  | 133,125  | 133,125             |
| 2024   |  | 133,125  | 133,125             |
| 2025   |  | 133,125  | 133,125             |
| 2026   | 225,000                                  | 133,125  | 358,125             |
| 2027   | 225,000                                  | 126,375  | 351,375             |
| 2028   | 225,000                                  | 119,625  | 344,625             |
| 2029   | 225,000                                  | 112,875  | 337,875             |
| 2030   | 225,000                                  | 106,125  | 331,125             |
| 2031   | 225,000                                  | 98,812   | 323,812             |
| 2032   | 225,000                                  | 91,500   | 316,500             |
| 2033   | 225,000                                  | 84,188   | 309,188             |
| 2034   | 250,000                                  | 76,875   | 326,875             |
| 2035   | 250,000                                  | 68,438   | 318,438             |
| 2036   | 250,000                                  | 60,000   | 310,000             |
| 2037   | 250,000                                  | 51,562   | 301,562             |
| 2038   | 250,000                                  | 43,125   | 293,125             |
| 2039   | 250,000                                  | 34,688   | 284,688             |
| 2040   | 250,000                                  | 26,250   | 276,250             |
| 2041   | 250,000                                  | 17,812   | 267,812             |
| 2042   | 225,000                                  | 8,438  | 233,438             |
| TOTALS   | <u>\$ 4,025,000</u>                      | <u>\$ 2,058,563</u>                              | <u>\$ 6,083,563</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
OCTOBER 31, 2019

| <u>Due During<br/>Fiscal Years<br/>Ending October 31</u> | <u>Annual Requirements for All Series</u> |                                   |                      |
|--|---|-----------------------------------|----------------------|
|  | <u>Total<br/>Principal<br/>Due</u>        | <u>Total<br/>Interest<br/>Due</u> | <u>Total</u>         |
| 2020   | \$ 775,000                                | \$ 532,247                        | \$ 1,307,247         |
| 2021   | 785,000                                   | 511,998                           | 1,296,998            |
| 2022   | 795,000                                   | 491,011                           | 1,286,011            |
| 2023   | 805,000                                   | 468,735                           | 1,273,735            |
| 2024   | 815,000                                   | 446,163                           | 1,261,163            |
| 2025   | 805,000                                   | 422,475                           | 1,227,475            |
| 2026   | 765,000                                   | 399,073                           | 1,164,073            |
| 2027   | 775,000                                   | 373,125                           | 1,148,125            |
| 2028   | 785,000                                   | 346,435                           | 1,131,435            |
| 2029   | 795,000                                   | 318,485                           | 1,113,485            |
| 2030   | 805,000                                   | 290,211                           | 1,095,211            |
| 2031   | 820,000                                   | 260,386                           | 1,080,386            |
| 2032   | 840,000                                   | 230,024                           | 1,070,024            |
| 2033   | 855,000                                   | 197,756                           | 1,052,756            |
| 2034   | 600,000                                   | 164,843                           | 764,843              |
| 2035   | 625,000                                   | 142,000                           | 767,000              |
| 2036   | 650,000                                   | 118,250                           | 768,250              |
| 2037   | 675,000                                   | 93,250                            | 768,250              |
| 2038   | 570,000                                   | 67,313                            | 637,313              |
| 2039   | 575,000                                   | 46,876                            | 621,876              |
| 2040   | 250,000                                   | 26,250                            | 276,250              |
| 2041   | 250,000                                   | 17,812                            | 267,812              |
| 2042   | 225,000                                   | 8,438                             | 233,438              |
| TOTALS   | <u>\$ 15,640,000</u>                      | <u>\$ 5,973,156</u>               | <u>\$ 21,613,156</u> |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED OCTOBER 31, 2019

|   | <u>(1)</u>                | <u>(2)</u>                | <u>(3)</u>                |
|---|---------------------------|---------------------------|---------------------------|
| Bond Series:                                      | 2003                      | 2012                      | 2013                      |
| Interest Rate:                                    | 4.25% to<br>4.50%         | 3.00% to<br>4.20%         | 2.50% to<br>5.00%         |
| Dates Interest Payable:                           | March 1/<br>September 1   | March 1/<br>September 1   | March 1/<br>September 1   |
| Maturity Dates:                                   | September 1,<br>2020/2024 | September 1,<br>2020/2033 | September 1,<br>2020/2037 |
| Bonds Outstanding at<br>Beginning of Current Year | \$ 420,000                | \$ 2,970,000              | \$ 3,130,000              |
| Less Retirements                                  | <u>(70,000)</u>           | <u>(150,000)</u>          | <u>(175,000)</u>          |
| Bonds Outstanding at<br>End of Current Year       | <u>\$ 350,000</u>         | <u>\$ 2,820,000</u>       | <u>\$ 2,955,000</u>       |
| Current Year Interest Paid                        | <u>\$ 18,340</u>          | <u>\$ 109,280</u>         | <u>\$ 119,288</u>         |

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 61 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2003 (\$1,275,000)
- (2) Harris County Municipal Utility District No. 61 Waterworks and Sewer System Unlimited Tax Bonds, Series 2012 (\$2,970,000)
- (3) Harris County Municipal Utility District No. 61 Unlimited Tax Bonds, Series 2013 (\$4,005,000)

Paying Agent/Registrar

- (1) (2) Wells Fargo Bank Texas, N.A., Houston, Texas
- (3) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT, (Continued)

FOR THE YEAR ENDED OCTOBER 31, 2019

|   | <u>(4)</u>                | <u>(5)</u>                | <u>(6)</u>                | <u>Totals</u>        |
|---|---------------------------|---------------------------|---------------------------|----------------------|
| Bond Series:                                      | 2015                      | 2017                      | 2018                      |                      |
| Interest Rate:                                    | 3.00% to<br>3.75%         | 2.00%                     | 3.00% to<br>3.75%         |                      |
| Dates Interest Payable:                           | March 1/<br>September 1   | March 1/<br>September 1   | March 1/<br>September 1   |                      |
| Maturity Dates:                                   | September 1,<br>2020/2039 | September 1,<br>2020/2025 | September 1,<br>2026/2042 |                      |
| Bonds Outstanding at<br>Beginning of Current Year | \$ 3,785,000              | \$ 2,075,000              | \$ 4,025,000              | \$ 16,405,000        |
| Less Retirements                                  | <u>(70,000)</u>           | <u>(300,000)</u>          | <u>0</u>                  | <u>(765,000)</u>     |
| Bonds Outstanding at<br>End of Current Year       | <u>\$ 3,715,000</u>       | <u>\$ 1,775,000</u>       | <u>\$ 4,025,000</u>       | <u>\$ 15,640,000</u> |
| Current Year Interest Paid                        | <u>\$ 129,881</u>         | <u>\$ 41,500</u>          | <u>\$ 133,125</u>         | <u>\$ 551,414</u>    |

Bond Descriptions and Original Amount of Issue

(4) Harris County Municipal Utility District No. 61 Unlimited Tax Bonds, Series 2015 (\$3,945,000)

(5) Harris County Municipal Utility District No. 61 Unlimited Tax Park Bonds, Series 2017  
(\$2,375,000)

(6) Harris County Municipal Utility District No. 61 Unlimited Tax Bonds, Series 2018 (\$4,025,000)

Paying Agent/Registrar

(4) (5) (6) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

| <u>Bond Authority</u>        | <u>Tax Bonds</u> | <u>Park Bonds</u> | <u>Refunding Bonds</u> |
|------------------------------|------------------|-------------------|------------------------|
| Amount Authorized by Voters: | \$ 42,685,000    | \$ 14,000,000     | \$ 12,000,000          |
| Amount Issued:               | 22,630,000       | 2,375,000         | 3,100,000              |
| Remaining to be Issued:      | 20,055,000       | 11,625,000        | 8,900,000              |

Net Debt Service Fund deposits and investments balances as of October 31, 2019: \$1,019,437  
Average annual debt service payment for remaining term of all debt: 939,702

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

|  | AMOUNT            |                   |                   |                  |                   | PERCENT OF TOTAL REVENUES |               |               |              |               |
|--|-------------------|-------------------|-------------------|------------------|-------------------|---------------------------|---------------|---------------|--------------|---------------|
|  | 2019              | 2018              | 2017              | 2016             | 2015              | 2019                      | 2018          | 2017          | 2016         | 2015          |
| <b>REVENUES</b>  |                   |                   |                   |                  |                   |                           |               |               |              |               |
| Property taxes   | \$ 374,029        | \$ 451,814        | \$ 465,194        | \$ 377,806       | \$ 293,056        | 25.7 %                    | 26.5 %        | 30.8 %        | 32.8 %       | 28.2 %        |
| Water service  | 270,518           | 269,071           | 248,483           | 238,000          | 230,321           | 18.6                      | 15.8          | 16.4          | 20.6         | 22.1          |
| Sewer service  | 175,320           | 173,173           | 162,072           | 155,003          | 153,356           | 12.1                      | 10.1          | 10.7          | 13.4         | 14.7          |
| Surface water fees                                     | 303,534           | 276,615           | 243,414           | 217,819          | 196,469           | 20.9                      | 16.2          | 16.1          | 18.9         | 18.9          |
| Penalty  | 11,689            | 6,046             | 7,324             | 7,020            | 7,890             | 0.8                       | 0.4           | 0.5           | 0.6          | 0.8           |
| Tap connection and inspection fees                     | 83,400            | 55,835            | 16,625            | 58,651           | 65,720            | 5.7                       | 3.3           | 1.1           | 5.1          | 5.8           |
| Payment in lieu of taxes                               | 60,308            | 53,416            | 59,186            | 0                | 0                 | 4.1                       | 3.1           | 3.9           | 0.0          | 0.0           |
| Sales and Use Taxes                                    | 143,409           | 387,247           | 284,298           | 76,456           | 65,978            | 9.9                       | 22.7          | 18.8          | 6.6          | 6.3           |
| Interest on prepaid surface water capital contribution | 11,298            | 11,875            | 12,426            | 12,952           | 13,454            | 0.8                       | 0.7           | 0.8           | 1.1          | 1.3           |
| Interest on deposits                                   | 13,915            | 9,100             | 5,022             | 3,141            | 1,959             | 1.0                       | 0.5           | 0.3           | 0.3          | 0.2           |
| Other revenues   | 6,163             | 12,448            | 8,917             | 6,844            | 11,862            | 0.4                       | 0.7           | 0.6           | 0.6          | 1.7           |
| <b>TOTAL REVENUES</b>                                  | <b>1,453,583</b>  | <b>1,706,640</b>  | <b>1,512,961</b>  | <b>1,153,692</b> | <b>1,040,065</b>  | <b>100.0</b>              | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b>  |
| <b>EXPENDITURES</b>                                    |                   |                   |                   |                  |                   |                           |               |               |              |               |
| Current:   |                   |                   |                   |                  |                   |                           |               |               |              |               |
| Purchased services                                     | 435,037           | 419,305           | 442,032           | 448,818          | 329,900           | 29.9                      | 24.6          | 29.2          | 39.0         | 31.8          |
| Professional fees                                      | 215,182           | 186,567           | 177,992           | 177,871          | 115,429           | 14.8                      | 10.9          | 11.8          | 15.4         | 11.1          |
| Contracted services                                    | 40,250            | 40,951            | 39,873            | 40,213           | 40,141            | 2.8                       | 2.4           | 2.6           | 3.5          | 3.9           |
| Utilities  | 11,473            | 10,803            | 10,724            | 11,109           | 8,055             | 0.8                       | 0.6           | 0.7           | 1.0          | 0.8           |
| Repairs and maintenance                                | 194,789           | 235,359           | 164,662           | 141,721          | 138,847           | 13.4                      | 13.8          | 10.9          | 12.3         | 13.3          |
| Other operating expenditures                           | 11,982            | 12,613            | 9,871             | 9,740            | 11,859            | 0.8                       | 0.7           | 0.7           | 0.8          | 1.1           |
| Administrative expenditures                            | 68,224            | 66,576            | 65,105            | 64,017           | 68,413            | 4.7                       | 3.9           | 4.3           | 5.5          | 6.6           |
| Capital outlay   | 86,270            | 168,207           | 64,092            | 164,154          | 33,702            | 5.9                       | 9.9           | 4.2           | 14.2         | 3.2           |
| <b>TOTAL EXPENDITURES</b>                              | <b>1,063,207</b>  | <b>1,140,381</b>  | <b>974,351</b>    | <b>1,057,643</b> | <b>746,346</b>    | <b>73.1</b>               | <b>66.8</b>   | <b>64.4</b>   | <b>91.7</b>  | <b>71.8</b>   |
| <b>EXCESS REVENUES (EXPENDITURES)</b>                  | <b>\$ 390,376</b> | <b>\$ 566,259</b> | <b>\$ 538,610</b> | <b>\$ 96,049</b> | <b>\$ 293,719</b> | <b>26.9 %</b>             | <b>33.2 %</b> | <b>35.6 %</b> | <b>8.3 %</b> | <b>28.2 %</b> |
| <b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>           | <b>616</b>        | <b>616</b>        | <b>619</b>        | <b>615</b>       | <b>616</b>        |                           |               |               |              |               |
| <b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>      | <b>589</b>        | <b>593</b>        | <b>603</b>        | <b>600</b>       | <b>600</b>        |                           |               |               |              |               |

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND  
FOR YEARS ENDED DECEMBER 31

|  | <u>AMOUNT</u>              |                            |                          |                        |                         | <u>PERCENT OF TOTAL REVENUES</u> |                        |                      |                     |                      |
|--|----------------------------|----------------------------|--------------------------|------------------------|-------------------------|----------------------------------|------------------------|----------------------|---------------------|----------------------|
|  | <u>2019</u>                | <u>2018</u>                | <u>2017</u>              | <u>2016</u>            | <u>2015</u>             | <u>2019</u>                      | <u>2018</u>            | <u>2017</u>          | <u>2016</u>         | <u>2015</u>          |
| <b>REVENUES</b>                                    |                            |                            |                          |                        |                         |                                  |                        |                      |                     |                      |
| Property taxes                                     | \$ 1,184,663               | \$ 993,539                 | \$ 1,054,233             | \$ 879,425             | \$ 820,688              | 97.5 %                           | 95.8 %                 | 98.2 %               | 97.9 %              | 98.0 %               |
| Penalty and interest                               | 13,528                     | 24,229                     | 11,460                   | 15,169                 | 7,478                   | 1.1                              | 2.3                    | 1.1                  | 1.7                 | 0.9                  |
| Accrued interest on bonds received at date of sale | 0                          | 9,616                      | 3,299                    | 0                      | 5,612                   | 0.0                              | 0.9                    | 0.3                  | 0.0                 | 0.7                  |
| Interest on deposits and other                     | 16,426                     | 10,881                     | 3,954                    | 3,452                  | 3,029                   | 1.4                              | 1.0                    | 0.4                  | 0.4                 | 0.4                  |
| <b>TOTAL REVENUES</b>                              | <b><u>1,214,617</u></b>    | <b><u>1,038,265</u></b>    | <b><u>1,072,946</u></b>  | <b><u>898,046</u></b>  | <b><u>836,807</u></b>   | <b><u>100.0</u></b>              | <b><u>100.0</u></b>    | <b><u>100.0</u></b>  | <b><u>100.0</u></b> | <b><u>100.0</u></b>  |
| <b>EXPENDITURES</b>                                |                            |                            |                          |                        |                         |                                  |                        |                      |                     |                      |
| Current:   |                            |                            |                          |                        |                         |                                  |                        |                      |                     |                      |
| Professional fees                                  | 3,341                      | 4,932                      | 2,217                    | 6,713                  | 2,229                   | 0.3                              | 0.5                    | 0.2                  | 0.7                 | 0.3                  |
| Contracted services                                | 26,526                     | 26,419                     | 26,480                   | 23,857                 | 24,297                  | 2.2                              | 2.5                    | 2.5                  | 2.7                 | 2.9                  |
| Other expenditures                                 | 965                        | 520                        | 1,390                    | 977                    | 1,206                   | 0.1                              | 0.1                    | 0.1                  | 0.1                 | 0.1                  |
| Debt service:                                      |                            |                            |                          |                        |                         |                                  |                        |                      |                     |                      |
| Principal retirement                               | 765,000                    | 745,000                    | 435,000                  | 435,000                | 385,000                 | 62.9                             | 71.7                   | 40.6                 | 48.5                | 46.0                 |
| Interest and fees                                  | 555,214                    | 436,205                    | 407,974                  | 423,964                | 336,588                 | 45.7                             | 42.0                   | 38.0                 | 47.2                | 40.2                 |
| <b>TOTAL EXPENDITURES</b>                          | <b><u>1,351,046</u></b>    | <b><u>1,213,076</u></b>    | <b><u>873,061</u></b>    | <b><u>890,511</u></b>  | <b><u>749,320</u></b>   | <b><u>111.2</u></b>              | <b><u>116.8</u></b>    | <b><u>81.4</u></b>   | <b><u>99.2</u></b>  | <b><u>89.5</u></b>   |
| <b>EXCESS REVENUES (EXPENDITURES)</b>              | <b><u>\$ (136,429)</u></b> | <b><u>\$ (174,811)</u></b> | <b><u>\$ 199,885</u></b> | <b><u>\$ 7,535</u></b> | <b><u>\$ 87,487</u></b> | <b><u>(11.2) %</u></b>           | <b><u>(16.8) %</u></b> | <b><u>18.6 %</u></b> | <b><u>0.8 %</u></b> | <b><u>10.5 %</u></b> |



HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSOCTOBER 31, 2019

Complete District Mailing Address: Harris County Municipal Utility District No. 61  
c/o Marks Richardson PC  
3700 Buffalo Speedway, Suite 830  
Houston, Texas 77098

District Business Telephone No.: 713-942-9922

Submission date of the most recent District Registration Form: January 24, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

| <u>Name and Address</u>   | <u>Term of Office<br/>(Elected/<br/>Appointed)</u> | <u>Fees of<br/>Office<br/>Paid</u> | <u>Expense<br/>Reimb.</u> | <u>Title at<br/>Year End</u> |
|---|--|------------------------------------|---------------------------|------------------------------|
| Wheeler BeMent<br>c/o Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098 | Elected<br>11/06/18-<br>11/08/22                   | \$ 2,100                           | \$ 0                      | President                    |
| Billy Lowery<br>c/o Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098   | Elected<br>11/06/18-<br>11/08/22                   | 2,700                              | 0                         | Vice<br>President            |
| W. R. Lusby<br>c/o Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098    | Elected<br>11/08/16<br>11/10/20                    | 2,550                              | 0                         | Secretary                    |
| Floyd J. Ball<br>c/o Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098  | Elected<br>11/08/16<br>11/10/20                    | 3,150                              | 85                        | Assistant<br>Secretary       |
| William Evans<br>c/o Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098  | Appointed<br>1/24/17-<br>11/10/20                  | 5,550                              | 2,300                     | Director                     |

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 61BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)OCTOBER 31, 2019CONSULTANTS

| <u>Name and Address</u>   | <u>Date<br/>Hired</u> | <u>Fees and Expense<br/>Reimbursements</u> | <u>Title at<br/>Year End</u>     |
|---|-----------------------|--|----------------------------------|
| Marks Richardson PC<br>3700 Buffalo Speedway, Suite 830<br>Houston, Texas 77098                             | 1/9/03                | \$ 105,697                                 | Attorney                         |
| Perdue, Brandon, Fielder,<br>Collins & Mott, L.L.P.<br>1235 N. Loop West, Suite 600<br>Houston, Texas 77008 | 2/13/97               | 3,341                                      | Delinquent<br>Tax<br>Attorney    |
| Myrtle Cruz, Inc.<br>3401 Louisiana, Suite 400<br>Houston, Texas 77002                                      | Prior to<br>11/1/83   | 22,160                                     | Bookkeeper                       |
| Mary Jarmon<br>3401 Louisiana, Suite 400<br>Houston, Texas 77002  | 3/9/00                | 0  | Investment<br>Officer            |
| Municipal Operations & Consulting, Inc.<br>27316 Spectrum Way<br>Oak Ridge, Texas 77385                     | 6/26/12               | 163,229                                    | Operator                         |
| A&S Engineers, Inc.<br>10377 Stella Link Road<br>Houston, Texas 77025                                       | 6/16/99               | 334,781                                    | Engineer                         |
| Wheeler & Associates, Inc.<br>6935 Barney Road, Suite 110<br>Houston, Texas 77092                           | 3/9/06                | 14,848                                     | Tax<br>Assessor-<br>Collector    |
| Harris County<br>Appraisal District<br>P.O. Box 900275<br>Houston, Texas 77292                              | Legislative<br>Action | 11,742                                     | Central<br>Appraisal<br>District |
| Masterson Advisors, LLC<br>4400 Post Oak Parkway, Suite 2370<br>Houston, Texas 77027                        | 4/24/18               | 0  | Financial<br>Advisor             |
| Mark C. Eyring, CPA, PLLC<br>12702 Century Drive, Suite C2<br>Stafford, Texas 77477                         | 8/14/08               | 12,150                                     | Independent<br>Auditor           |

See accompanying independent auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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