

## OFFICIAL STATEMENT DATED MAY 21, 2020

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1. IN THE OPINION OF SPECIAL TAX COUNSEL, 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" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL, RESPECTIVELY.

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—Qualified Tax-Exempt Obligations."

### NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P "AA" (stable outlook)  
 Underlying Rating: S&P "A"  
 See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

## \$3,295,000 HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1 (A political subdivision of the State of Texas located within Harris and Fort Bend Counties) UNLIMITED TAX REFUNDING BONDS SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris-Fort Bend Counties Municipal Utility District No. 1 (the "District") and are not obligations of the State of Texas, Harris County, Fort Bend 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" herein.

### Interest accrues from June 1, 2020

**Due: April 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, Regions Bank, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from June 1, 2020, and will be payable on October 1 and April 1 of each year commencing October 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. Beneficial Owners (as herein 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 scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

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

Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2021	\$ 70,000	4.00 %	1.00 %	414542 LS7	2026	\$ 370,000	4.00 %	1.50 %	414542 LX6
2022	480,000	4.00	1.06	414542 LT5	2027	385,000 (a)	2.00	1.69	414542 LY4
2023	245,000	4.00	1.14	414542 LU2	2028	380,000 (a)	2.00	1.85	414542 LZ1
2024	350,000	4.00	1.22	414542 LV0	2029	390,000 (a)	2.00	1.94	414542 MA5
2025	360,000	4.00	1.36	414542 LW8	2030	265,000 (a)	2.00	2.00	414542 MB3

- (a) Bonds maturing on or after April 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 April 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. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. Investment in the Bonds is 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 Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas, and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. 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 24, 2020.

**SAMCO CAPITAL**

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### USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this OFFICIAL STATEMENT, and, if given or made, such other information or 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 Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056 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 THE OFFICIAL STATEMENT—Updating the Official Statement.”

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

## 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 \$3,449,430.27 (representing the par amount of the Bonds of \$3,295,000.00, plus a premium on the Bonds of \$186,606.65, less an Underwriter’s discount of \$32,176.38) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has 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.

## 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 FINANCING

- The Issuer...* Harris-Fort Bend Counties Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas, is located in Harris and Fort Bend Counties, Texas. See “THE DISTRICT.”
- The Issue...* \$3,295,000 Harris-Fort Bend Counties Municipal Utility District No. 1, Unlimited Tax Refunding Bonds, Series 2020, dated June 1, 2020 (the “Bonds”). Interest on the Bonds will accrue from June 1, 2020, and will be payable on April 1 and October 1 of each year commencing October 1, 2020 until maturity or prior redemption. The Bonds mature serially on April 1 in each year from 2021 through 2030, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page hereof. The Bonds maturing on or after April 1, 2027, are subject to optional redemption, in whole or, from time to time, in part, on April 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. If less than all the Bonds are redeemed, the maturity or maturities and amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC, as defined herein, in accordance with its procedures. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
- Book-Entry Only...* 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 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.”
- Authority for Issuance...* The Bonds are the sixth series of unlimited tax refunding bonds issued by the District. At an election held within the District on May 7, 2016, voters of the District authorized a total of \$19,230,000 principal amount of unlimited tax refunding bonds, of which \$19,230,000 will remain authorized but unissued after issuance of the Bonds. The proposition passed in such election for the issuance of said refunding bonds cancelled the remaining authorized but unissued unlimited tax refunding bonds voted at the election held within the District on November 6, 2001, but authorized the District to continue levying and collecting taxes for the payment of the principal of and interest on any refunding bonds that have been issued and remain outstanding under the proposition submitted at such prior election. The Bonds are issued by the District pursuant to said election held on May 7, 2016 and to the terms and provisions of the Bond Order (as herein defined); Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water 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.”
- Source of Payment...* The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
- Payment Record...* The District has previously issued \$24,800,000 principal amount of unlimited tax bonds in twelve series and \$15,250,000 principal amount of unlimited tax refunding bonds in five series (collectively, the “Previously Issued Bonds”). As of April 2, 2020, a total of \$11,025,000 principal amount of such bonds is outstanding (the “Outstanding Bonds”). The District has timely paid its debt service on the Previously Issued Bonds.
- Use of Proceeds...* Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$3,305,000 principal amount of the Outstanding Bonds in order to achieve net savings in the District's annual debt service expense. See “PLAN OF FINANCING.”

*Qualified Tax-Exempt Obligations...*

The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS— Qualified Tax-Exempt Obligations."

*Municipal Bond Insurance and Municipal Bond Rating...*

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign a municipal bond rating of "AA" (stable outlook) 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 Build America Mutual Assurance Company ("BAM" or the "Insurer"). The Bonds also have been assigned an underlying credit rating of "A" by S&P without regard to credit enhancement. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

*Bond Counsel...*

Schwartz, Page & Harding, L.L.P., Houston, Texas.

*Special Tax Counsel...*

McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

*Underwriter's Counsel...*

McCall, Parkhurst & Horton L.L.P., Houston, Texas.

*Financial Advisor...*

Masterson Advisors LLC, Houston, Texas.

*Paying Agent/Registrar...*

Regions Bank, Houston, Texas.

*Escrow Agent...*

Regions Bank, Houston, Texas.

*Verification Agent...*

Public Finance Partners LLP, Minneapolis, Minnesota.

## THE DISTRICT

*Description...*

The District is a political subdivision of the State of Texas, created by order of the Texas Water Commission, a predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or "Commission"), dated June 27, 1978. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 501 acres of land. See "THE DISTRICT."

*Location...*

The District is located in Harris and Fort Bend Counties, approximately 25 miles west of the central downtown business district of the City of Houston. The District lies south of Interstate 10 West, and west of State Highway 99, also known as the Grand Parkway. The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. See "THE DISTRICT."

*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 as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition or its rating. 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.

*Extreme Weather Events...*

The greater Houston area, including the District, is subject to the possibility of 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 (as defined herein), there was no interruption of water and sewer service as a result of Hurricane Harvey. According to Van De Wiele & Vogler, Inc. (the "Engineer"), the District's system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Water Plant No. 2 located in Harris-Fort Bend Counties Municipal Utility District No. 5, but having shared ownership with the District, experienced damage, but service was not interrupted. The District estimates that approximately 39 homes in the District experienced structural flooding as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase 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. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

*Status of Development.....*

Residential development in the District includes Falcon Point Sections One through Eight, Parkway Oaks Sections One through Six, Falcon Rock, Section One, Wyndehaven Lake Estates, and Roesner Woods. Development within the District includes 1,244 single-family residential lots on approximately 357 acres. As of March 28, 2020, 1,237 homes were completed and occupied and 7 homes were completed and unoccupied.

In addition to the residential development, The Club at Falcon Point, a private membership club with golf, tennis and swimming facilities is located on approximately 135 acres in the District. There are also a commercial strip center constructed on approximately 2 acres, and the Shops at Saddlespur located on approximately 4 acres of land. There is no land remaining to be developed and 53 acres that are undevelopable, which includes recreational facilities and golf course ponds. See "THE DISTRICT—Status of Development."

**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 (UNAUDITED)

2019 Taxable Assessed Valuation .....	\$383,937,307	(a)
2020 Preliminary Taxable Assessed Valuation.....	\$388,310,038	(b)
Gross Direct Debt Outstanding .....	\$11,015,000	(c)
Estimated Overlapping Debt.....	23,267,408	(d)
Gross Direct Debt and Estimated Overlapping Debt .....	<u>\$34,282,408</u>	
Ratios of Gross Direct Debt to:		
2019 Taxable Assessed Valuation .....	2.87%	
2020 Preliminary Taxable Assessed Valuation .....	2.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation .....	8.93%	
2020 Preliminary Taxable Assessed Valuation .....	8.83%	
Debt Service Funds Available as of May 19, 2020.....	\$1,077,636	
Operating Funds Available as of May 19, 2020.....	\$5,780,872	
Capital Projects Funds Available as of May 19, 2020 .....	\$81,025	
2019 Debt Service Tax Rate .....	\$0.37	
2019 Maintenance Tax Rate .....	<u>0.27</u>	
2019 Total Tax Rate .....	\$0.64	
Average Annual Debt Service Requirement (2021-2030) .....	\$1,257,142	(e)
Maximum Annual Debt Service Requirement (2021) .....	\$1,535,556	(e)
Tax Rate Required to Pay Average Annual Debt Service (2021-2030) at a 95% Collection Rate		
Based upon 2019 Taxable Assessed Valuation.....	\$0.35	(f)
Based upon 2020 Preliminary Taxable Assessed Valuation .....	\$0.35	(f)
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate		
Based upon 2019 Taxable Assessed Valuation.....	\$0.43	(f)
Based upon 2020 Preliminary Taxable Assessed Valuation .....	\$0.42	(f)
Status of Development as of March 28, 2020:		
Completed and Occupied Single Family Homes .....	1,237	
Completed and Unoccupied Single Family Homes .....	7	
Commercial Connections.....	11	
Other Connections .....	18	
Estimated Population.....	4,329	(g)

- (a) The Harris County Appraisal District (the "HCAD") has certified \$51,857,174 of taxable value on the properties within the District located in Harris County. The Fort Bend Central Appraisal District ("FBCAD") has certified \$332,080,133 of taxable value on the properties within the District located in Fort Bend County. See "TAX PROCEDURES."
- (b) Provided by HCAD and FBCAD as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. Includes estimate from HCAD of \$50,542,354 which includes personal property value from 2019 and estimate from FBCAD of \$337,767,684, which total amount includes a reduction of \$7,774,704 as suggested by FBCAD in anticipation of higher appeals due to COVID-19. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (d) See "FINANCIAL STATEMENT (UNAUDITED)—Estimated Overlapping Debt".
- (e) See "PLAN OF FINANCING—Debt Service Requirements."
- (f) See "TAX DATA—Tax Adequacy Debt Service" and "INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rate".
- (g) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

**\$3,295,000**

### **HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1** *(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)*

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

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris-Fort Bend Counties Municipal Utility District No. 1, (the "District") of its \$3,295,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water 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 (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 Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of the cost of duplication.

#### **PLAN OF FINANCING**

##### **Purpose**

The proceeds of the Bonds will be used to refund and defease a portion of three series of the District's Outstanding Bonds as listed below in "Refunded Bonds" totaling \$3,305,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds" herein. A total of \$7,720,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

##### **Outstanding Bonds**

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2008	\$ 1,790,000	\$ 1,290,000	\$ 1,290,000	\$ -
2011 (a)	3,090,000	840,000	430,000	410,000
2013	1,585,000	1,585,000	1,585,000	-
2014 (a)	4,280,000	2,805,000	-	2,805,000
2015 (a)	3,190,000	2,420,000	-	2,420,000
2018	2,085,000	2,085,000	-	2,085,000
Total	\$ 16,020,000	\$ 11,025,000	\$ 3,305,000	\$ 7,720,000
The Bonds				3,295,000
The Bonds and Remaining Outstanding Bonds				\$ 11,015,000

(a) Unlimited Tax Refunding Bonds.



**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 <u>April 1</u>	Series <u>2008</u>	Series <u>2011</u>	Series <u>2013</u>
2021	\$50,000 (a)		
2022	50,000 (a)	\$430,000	
2023	145,000 (a)		\$100,000
2024	150,000 (a)		200,000
2025	160,000 (b)		200,000
2026	170,000 (b)		200,000
2027	180,000 (b)		200,000
2028	185,000 (b)		200,000
2029	200,000		200,000
2030			285,000
	<u>\$1,290,000</u>	<u>\$430,000</u>	<u>\$1,585,000</u>
Redemption Date:	June 29, 2020	June 29, 2020	June 29, 2020

- (a) Consisting of a term bond in the aggregate amount of \$300,000, maturing April 1, 2024 and subject to mandatory redemption.  
 (b) Consisting of a term bond in the aggregate amount of \$695,000, maturing April 1, 2028 and subject to mandatory redemption.

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds .....	\$3,295,000.00
Premium on the Bonds .....	186,606.65
Total Sources of Funds .....	<u>\$3,481,606.65</u>
Uses of Funds:	
Deposit to Escrow Fund .....	3,335,017.78
Issuance Expenses and Underwriters' Discount (a) .....	146,588.87
Total Uses of Funds .....	<u>\$3,481,606.65</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 dates, from funds to be deposited with Regions Bank, Houston, 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 be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be June 24, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, 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”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

**Defeasance of the Refunded Bonds**

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

**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 (\$3,295,000 principal amount).

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$185,216 (a)	\$61,400		\$34,467	\$34,467	\$158,282
2021	1,535,231	171,675	\$70,000	102,000	172,000	1,535,556
2022	1,533,400	590,825	480,000	91,000	571,000	1,513,575
2023	1,455,994	341,338	245,000	76,500	321,500	1,436,156
2024	1,453,956	435,200	350,000	64,600	414,600	1,433,356
2025	1,460,531	432,225	360,000	50,400	410,400	1,438,706
2026	1,107,869	428,800	370,000	35,800	405,800	1,084,869
2027	1,105,897	424,925	385,000	24,550	409,550	1,090,522
2028	1,028,788	415,713	380,000	16,900	396,900	1,009,975
2029	1,031,875	416,050	390,000	9,200	399,200	1,015,025
2030	1,035,300	289,275	265,000	2,650	267,650	1,013,675
<b>Total</b>	<b>\$ 12,934,056</b>	<b>\$ 4,007,425</b>	<b>\$ 3,295,000</b>	<b>\$ 508,067</b>	<b>\$ 3,803,067</b>	<b>\$ 12,729,698</b>

(a) Excludes April 1, 2020 debt service payment of \$1,350,715.

Maximum Annual Debt Service Requirement (2021) .....	\$1,535,556
Average Annual Debt Service Requirements (2021-2030).....	\$1,257,142

## 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 October 1, 2020, and on each October 1 and April 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 April 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one 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-Only 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 an election held within the District on May 7, 2016, voters of the District authorized a total of \$19,230,000 in unlimited tax bonds for the purpose of refunding bonds of the District. In the proposition for said refunding bonds approved by voters at said election on May 7, 2016, the remaining authorized but unissued unlimited tax refunding bonds authorized by the voters at the election held within the District on November 6, 2001 were cancelled, however, the District retained authorization to continue levying and collecting taxes for the payment of the principal of and interest on any refunding bonds that have been issued and remain outstanding pursuant to and in accordance with the proposition submitted at the November 6, 2001 election. The Bonds are issued by the District pursuant to said election held on May 7, 2016 and to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; City of Houston Ordinance No. 97-416; and Chapters 49 and 54 of the Texas Water Code, as amended.

### Source 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, Fort Bend 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 was created and established pursuant to the orders of the Board of Directors of the District authorizing the issuance of the Previously Issued Bonds. Accrued interest on the Bonds will be deposited from the proceeds from 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 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 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on and after April 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY- ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

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

The Board has appointed Regions Bank, Houston, 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**

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the 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 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's voters have authorized the issuance of a total of \$43,790,000 of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District currently has \$18,990,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$19,230,000 of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. After issuance of the Bonds, the District will have \$19,230,000 of unlimited tax refunding bonds authorized but unissued.

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

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 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 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers", or calling such an election at this time. 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 Commission 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.

The District has not considered calling an election for such purposes but could consider doing so in the future.

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 “City”), the District may be annexed for full purposes by the City, subject to compliance by the City with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City 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 is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation that the City will ever attempt to annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See “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.

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

## **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.”

## **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 payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company 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**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor take any responsibility for the accuracy or completeness thereof.*

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](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 Commission, a predecessor to the Commission, dated June 27, 1978, 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, which lies wholly within the extraterritorial jurisdiction of the City of Houston (except as described below under "Strategic Partnership Agreement"), is subject to the continuing supervisory jurisdiction of the Commission.

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 disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the Commission and certain limitations, develop and finance roads. See "THE BONDS-Issuance of Additional Debt," "Financing Recreational Facilities" and "Financing Road 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 finance the acquisition, construction, and improvement of waterworks, wastewater, 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 and Fort Bend County. The District is also required to obtain certain Commission approvals prior to acquiring, constructing and financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and/or for the purposes of financing recreational facilities. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."



## **Description and Location**

The District is located in Harris and Fort Bend Counties, approximately 25 miles west of the central downtown business district of the City of Houston. The District lies south of Interstate 10 West and west of State Highway 99 (Grand Parkway). Access to the District is provided by State Highway 99, Katy-Fort Bend Road, Westheimer Parkway and Roesner Road. The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. The District consists of approximately 501 acres of land.

## **Strategic Partnership Agreement**

The District and the City of Houston (the “City”) have entered into a First Amended and Restated Strategic Partnership Agreement dated effective June 8, 2015 (the “SPA”), pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules. The procedures for full purpose annexation under the SPA may differ from those otherwise applicable under Chapter 43, Texas Local Government Code, including any requirements for an election. See “THE BONDS—Annexation.”

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the “Sales Tax Revenue”). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Outstanding Bonds.

## **Residential Development**

Residential development in the District includes Falcon Point Sections One through Eight, Parkway Oaks Sections One through Six, Falcon Rock, Section One, Wyndhaven Lake Estates and Roesner Woods. Development within the District includes 1,237 single-family residential lots on approximately 357 acres. As of March 28, 2020, there were 1,237 occupied homes and 7 homes completed but vacant.

## **Commercial Development**

The Club at Falcon Point, a private membership club with golf, tennis and swimming facilities is located on approximately 135 acres in the District. The Shops at Saddlespur Shopping Center is located on approximately 4 acres of land in the District. A commercial strip center is located on approximately 2 acres of land in the District. There is also a recreational center in Parkway Oaks on approximately 2 acres of land in the District.

## **Undeveloped Acreage**

The District has approximately 53 acres of land contained in easements, rights-of-way, golf ponds, recreational facilities and lift station sites. There is no land remaining in the District to be developed which is not currently provided with water distribution, wastewater collection and storm drainage facilities.

## MANAGEMENT

### **Board of Directors**

The District is governed by the Board, currently consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms in May of even numbered years only. Four of the members of the Board reside in the District. The other member owns land within the District, subject to a note and deed of trust in favor of a developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Beyer	President	May 2024
Kristen Scott	Vice President	May 2022
Ron Lovett	Secretary	May 2024
Richard Hughes	Assistant Secretary	May 2022
Joseph R. Longacre	Director	May 2024

The District has no full-time employees but instead contracts with the entities described below for professional services:

### **Tax Assessor/Collector**

Land and improvements in the District are being appraised for taxation by the Fort Bend Central Appraisal District and the Harris County Appraisal District. The District contracts with Equi-Tax, Inc. to act as Tax Assessor/Collector for the District.

### **System Operator**

The District contracts with Inframark, LLC for maintenance and operation of the District's system.

### **Bookkeeper**

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

### **Engineer**

The District's consulting engineer is Van De Wiele and Vogler, Inc. (the "Engineer").

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audited financial statements are filed with the Commission. The financial statements of the District, as of September 30, 2019, and for the year then ended, included in this offering document, have been audited by Mark C. Eyring, CPA, PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's September 30, 2019, audited financial statements.

### **Bond Counsel and General Counsel**

Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

### **Special Tax Counsel**

McCall, Parkhurst & Horton L.L.P. serves as Special Tax Counsel to the District. The fee to be paid Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

### **Financial Advisor**

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

## **THE SYSTEM**

### **Regulation**

According to the Engineer, the District's water 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 agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction and operation of the System was in accordance with the standards and specifications and requirements of such entities and is subject to inspection by each such entity. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of Harris County and Fort Bend County and, in some instances, the Commission. Harris County, Fort Bend County, the City of Houston, and the Texas Department of Health 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 which provides service to the District beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

### **Water Distribution and Sanitary Sewer Collection and Drainage System**

The District's System includes water, sanitary sewer and drainage facilities to serve the land described under "THE DISTRICT—Residential Development" and "—Commercial Development." "

### **Water Supply**

Water supply for the District is provided by two water plants jointly owned with Harris – Fort Bend Counties Municipal Utility District No. 5 ("No. 5") and operated by No. 5 which are capable of serving 3,722 equivalent single family connections (esfcs), of which the District owns 1,446 esfcs. The water well at Water Plant No. 1 is a 1,221 gallon per minute ("gpm") well. Water Plant No. 2 has a 1,214 gpm well. The District's water supply facilities include 60,000 gallons of pressure tank capacity, 1,050,000 gallons of ground storage capacity and 7,450 gpm booster pump capacity.

The District has emergency water supply interconnects with Fort Bend County Municipal Utility District No. 37 and Harris – Fort Bend Counties Municipal Utility District No. 3.

### **Subsidence District Requirements**

The water production facilities operated by No. 5 and serving No. 5 and the District are within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. On September 24, 2003, the Subsidence District adopted a Regulatory Plan (the "Regulatory Plan") to reduce groundwater withdrawal through the conversion to surface water or other alternative water sources in certain areas within FBSD's jurisdiction. In 2005, the Texas legislature created the North Fort Bend Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the District) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District and No. 5 are included within 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 imposed on the District for groundwater pumped by the District), 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 a rate per 1,000 gallons based on the amount, if any, of surface water received 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 2025 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 to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, 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 40% of the total annual 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 seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that such fees will increase and the need to continue passing such fees through to its customers through higher water and sewer rates. In addition, conversion to surface water could necessitate improvements to the District's water supply system which could require issuance of additional bonds. In the event the Authority fails to reduce groundwater withdrawal to the levels specified in the Regulatory Plan by the deadlines established by the Subsidence District, then the District and others within the Authority's GRP group will be required to pay a disincentive fee on withdrawn groundwater. The District expects it would need to pass such fee through to its customers through higher water and sewer rates or with portions of its maintenance tax proceeds. This fee would be in addition to the Authority's fee.

### **Wastewater Treatment Facilities**

Wastewater treatment for the District is provided by a wastewater treatment plant jointly owned by the District and No. 5 and operated by No. 5 that currently has capacity to treat 995,000 gallons per day. The District's capacity in the 995,000 gallons per day wastewater treatment plant is 39.37%, which will serve 1,356 esfc. The District is currently serving 1,345 ESFCs.

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

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

No areas in the District are located within the 100-year flood plain. See "THE DISTRICT—Recent Extreme Weather Events; Hurricane Harvey."

**FINANCIAL STATEMENT (UNAUDITED)**

2019 Taxable Assessed Valuation .....	\$383,937,307	(a)
2020 Preliminary Taxable Assessed Valuation .....	\$388,310,038	(b)
Gross Direct Debt Outstanding.....	\$11,015,000	(c)
Estimated Overlapping Debt .....	<u>23,267,408</u>	(d)
Total Gross Direct Debt and Estimated Overlapping Debt .....	\$34,282,408	
Ratios of Gross Direct Debt to:		
2019 Taxable Assessed Valuation .....	2.87%	
2020 Preliminary Taxable Assessed Valuation .....	2.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Taxable Assessed Valuation.....	8.93%	
2020 Preliminary Taxable Assessed Valuation .....	8.83%	

Area of District – 501 Acres  
Estimated 2020 Population – 4,329 (e)

- (a) The Harris County Appraisal District (the “HCAD”) has certified \$51,857,174 of taxable value on the properties within the District located in Harris County. The Fort Bend Central Appraisal District (“FBCAD”) has certified \$332,080,133 of taxable value on the properties within the District located in Fort Bend County. See “TAX PROCEDURES.”
- (b) Provided by HCAD and FBCAD as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. Includes estimate from HCAD of \$50,542,354 which includes personal property value from 2019 and estimate from FBCAD of \$337,767,684, which total amount includes a reduction of \$7,774,704 as suggested by FBCAD in anticipation of higher appeals due to COVID-19. See “TAXING PROCEDURES.”
- (c) After the issuance of the Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (d) See “FINANCIAL STATEMENT (UNAUDITED)—Estimated Overlapping Debt.”
- (e) Based upon 3.5 persons per occupied single-family residence.

**Cash and Investment Balances (unaudited as of May 19, 2020)**

Operating Fund	Cash and Temporary Investments	\$5,780,872
Construction Fund	Cash and Temporary Investments	\$81,025
Debt Service Fund	Cash and Temporary Investments	\$1,077,636

**District Investment Policy**

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

## WATER AND SEWER OPERATIONS

### General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. However, net revenues, if any, derived from 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 the 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 the fiscal years ended September 30, 2015 through 2019, and in the case of the information for the period ended March 31, 2020, from the District's bookkeeper. Reference is made to such records and statements for further and more complete information.

	Unaudited 10/1/2019 thru 3/31/2020 (a)	Fiscal Year Ended September 30				
		2019	2018	2017	2016	2015
<b>Revenues</b>						
Water Service	\$ 227,717	\$ 368,743	\$ 401,991	\$ 389,668	\$ 405,759	\$ 389,033
Sewer Service	184,985	370,369	371,432	365,812	363,270	361,455
Property Taxes	995,903	1,026,378	1,004,120	883,421	839,399	660,068
Penalties and Interest	6,488	21,827	15,570	18,831	25,934	23,074
Tap Connection and Inspection Fees	220	-	44,145	6,040	4,000	148,920
Regional Water Authority Fees	293,642	502,657	512,911	458,977	428,551	359,516
City of Houston Sales Tax Rebate	20,418	29,598	23,131	29,729	23,059	19,551
Investment Earnings	55,120	106,472	44,738	17,617	10,620	9,468
Other	19,678	25,033	31,290	35,555	28,140	22,608
<b>Total Revenues</b>	<b>\$ 1,804,172</b>	<b>\$ 2,451,077</b>	<b>\$ 2,449,328</b>	<b>\$ 2,205,650</b>	<b>\$ 2,128,732</b>	<b>\$ 1,993,693</b>
<b>Expenditures</b>						
Purchased Services	\$ 128,320	\$ 381,298	\$ 394,386	\$ 325,800	\$ 253,035	\$ 291,381
Professional Fees	91,431	151,774	190,348	145,723	161,365	140,523
Contracted Services	46,598	97,462	88,744	95,249	87,516	82,854
Repairs and Maintenance	189,248	223,566	175,245	302,772	197,823	218,038
Utilities	4,717	7,912	9,435	9,728	10,043	8,418
Regional Water Authority Fees	239,159	527,830	491,396	491,317	433,114	379,280
Garbage Disposal	103,488	208,126	221,036	202,566	197,804	197,436
Administrative	25,328	31,632	41,092	38,648	46,396	41,607
Other	1,810	-	7,453	5,458	5,186	6,752
Capital Outlay	-	-	128,739	366,951	32,295	326,546
Security Service	117,463	229,890	202,469	230,119	183,943	195,706
<b>Total Expenditures</b>	<b>\$ 947,562</b>	<b>\$ 1,859,490</b>	<b>\$ 1,950,343</b>	<b>\$ 2,214,331</b>	<b>\$ 1,608,520</b>	<b>\$ 1,888,541</b>
<b>Net Revenues</b>	<b>\$ 856,610</b>	<b>\$ 591,587</b>	<b>\$ 498,985</b>	<b>\$ (8,681)</b>	<b>\$ 520,212</b>	<b>\$ 105,152</b>
<b>Other Financing Sources/(Uses)</b>						
Reimbursement from other funds	\$ 258,574	\$ -	\$ 363,246	\$ -	\$ -	\$ -
Sale of sewer line capacity from other district	-	-	118,650	-	-	-
Interfund Transfer	-	-	-	-	-	-
<b>Total Other Sources/(Uses)</b>	<b>\$ 258,574</b>	<b>\$ -</b>	<b>\$ 481,896</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 4,899,903</b>	<b>\$ 4,308,316</b>	<b>\$ 3,327,435</b>	<b>\$ 3,336,116</b>	<b>\$ 2,815,904</b>	<b>\$ 2,710,752</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 6,015,087</b>	<b>\$ 4,899,903</b>	<b>\$ 4,308,316</b>	<b>\$ 3,327,435</b>	<b>\$ 3,336,116</b>	<b>\$ 2,815,904</b>

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

## ESTIMATED OVERLAPPING DEBT STATEMENT

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 594,872,527	1/31/2020	0.54%	\$ 3,204,595
Harris County.....	1,885,182,125	1/31/2020	0.08%	1,495,448
Harris County Flood Control District.....	83,075,000	1/31/2020	0.08%	67,318
Harris County Hospital District.....	57,300,000	1/31/2020	0.08%	46,421
Harris County Dept. of Education.....	6,320,000	1/31/2020	0.08%	5,012
Port of Houston Authority.....	572,569,397	1/31/2020	0.08%	464,023
Willow Fork Drainage District.....	36,160,000	2/1/2020	2.08%	752,128
Katy Independent School District.....	1,824,334,942	1/31/2020	0.94%	17,232,462
Total Estimated Overlapping Debt.....				\$ 23,267,408
The District.....	11,015,000 (a)	Current	100.00%	11,015,000
Total Direct and Estimated Overlapping Debt.....				\$ 34,282,408
Ratio of Direct and Estimated Overlapping Debt to 2019 Taxable Assessed Valuation.....				8.93%
Ratio of Direct and Estimated Overlapping Debt to 2020 Preliminary Taxable Assessed Valuation.....				8.83%

(a) After issuance of the Bonds.

### Overlapping Taxes for 2019

	Properties in Fort Bend County 2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>	Properties in Harris County 2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County.....	\$ 0.46000	
Harris County (a).....		\$ 0.61670
Katy Independent School District.....	1.44310	1.44310
Willow Fork Drainage District (b).....	0.18500	
Fort Bend County ESD No. 2 (c).....	0.10000	
Harris County ESD No. 48.....		0.10000
Total Overlapping Tax Rate.....	\$ 2.18810	\$ 2.15980
The District.....	0.64000	0.64000
Total Tax Rate.....	\$ 2.82810	\$ 2.79980

- (a) Includes Harris County, Harris County Hospital District, Harris County Flood Control District and Port of Houston Authority.  
 (b) Properties located in Parkway Oaks are located in Willow Fork Drainage District.  
 (c) Properties located in Parkway Oaks, Wyndehaven Lake Estates and Roesner Woods are located in Fort Bend County ESD No. 2.

## 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 Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of April 30, 2020	
				Amount	Percent
2015	\$ 344,386,630	\$0.655	\$ 2,255,744	\$ 2,253,722	99.91%
2016	368,921,389	0.610	2,250,429	2,248,410	99.91%
2017	371,440,832	0.620	2,303,083	2,298,269	99.79%
2018	382,080,008	0.620	2,369,785	2,359,954	99.59%
2019	383,925,597	0.640	2,456,975	2,400,931	97.72%

Taxes are due upon receipt of 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 21<sup>st</sup> day after such taxes are billed. No split payments are allowed and no discounts are allowed.

### Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.370	\$ 0.350	\$ 0.350	\$ 0.370	\$ 0.410
Maintenance and Operations	0.270	0.270	0.270	0.240	0.245
Total	\$ 0.640	\$ 0.620	\$ 0.620	\$ 0.610	\$ 0.655

### Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: \$0.50 per \$100 Assessed Valuation

### Debt Service Tax

The Board will covenant 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 which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt. The District levied a debt service tax of \$0.37 for 2019.

### Maintenance Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On December 17, 1983, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$0.50 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any additional unlimited tax bonds which may be issued in the future. The District levied a tax rate of \$0.27 for maintenance purposes in tax year 2019.



**Principal Taxpayers**

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the certified 2019 tax roll (\$383,937,307), which reflects ownership at January 1, 2019. A principal taxpayer list related to the 2020 Preliminary Taxable Assessed Valuation is subject to review and significant revision, and therefore is not included herein.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Atlas Magnolia Apartments LLC	Land and Improvements	\$ 8,420,403	2.19%
FT Bend Acquisition Corp.	Land and Improvements	3,082,082	0.80%
All Pets Animal Hospital LLC	Land and Improvements	1,497,648	0.39%
Harvest Farmers Market	Land and Improvements	1,174,040	0.31%
WS Real Estate Holdings LLC	Land and Improvements	906,689	0.24%
Centerpoint Energy Electric Individual	Land and Improvements	767,950	0.20%
Individual	Land and Improvements	640,880	0.17%
Individual	Land and Improvements	632,570	0.16%
Individual	Land and Improvements	626,230	0.16%
Harone Properties LLC	Land and Improvements	617,429	0.16%
Total		\$ 18,365,921	4.78%

**Summary of Assessed Valuation**

The following breakdown of the 2015 through 2019 Taxable Assessed Valuations has been provided by the District's Tax Assessor/Collector based on information contained in the 2015 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</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 66,953,508	\$ 66,638,371	\$ 64,447,068	\$ 62,603,738	\$ 62,396,486
Improvements	324,994,520	318,999,641	311,882,386	313,057,560	303,750,094
Personal Property	5,021,821	5,107,342	5,062,020	4,710,340	3,021,602
Less: Exemptions	(13,032,542)	(8,665,346)	(9,950,642)	(11,450,249)	(24,781,652)
Total	\$383,937,307	\$382,080,008	\$371,440,832	\$368,921,389	\$344,386,530

**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 Taxable Assessed Valuation and the 2020 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification 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 and average annual debt service requirement. See "INVESTMENT CONSIDERATIONS— Impact on District Tax Rates."

Average Annual Debt Service Requirement (2021-2030).....	\$1,257,142
\$0.35 Tax Rate on the 2019 Taxable Assessed Valuation .....	\$1,276,592
\$0.35 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation.....	\$1,291,131
Maximum Annual Debt Service Requirement (2021).....	\$1,535,556
\$0.43 Tax Rate on the 2019 Taxable Assessed Valuation .....	\$1,568,384
\$0.42 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation.....	\$1,549,357

No representation or suggestion is made that the 2020 Preliminary Taxable Assessed Valuation will not be adjusted downward prior to certification, and no person should rely upon such amount or their inclusion herein as assurance of their attainment. See "TAX PROCEDURES."

## **TAX PROCEDURES**

### **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 District is located in Harris County and Fort Bend County. The Harris County Appraisal District has the responsibility for appraising property in the District located within Harris County and the Fort Bend Central Appraisal District has the responsibility for appraising property in the District located within Fort Bend County. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board or the Fort Bend County Appraisal Review Board, as applicable. Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of said appraisal review boards 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 either the Harris County Appraisal District or the Fort Bend Central Appraisal District, as applicable, and approved by the applicable appraisal review board, must be used by each taxing jurisdiction in establishing its tax roll and rate. The District is eligible, along with all other conservation and reclamation districts within Harris County and Fort Bend County, to participate in the nomination of and vote for a member of the Board of Directors of each county's respective 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 \$35,000 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.

### **General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2020 tax year, the District has not granted a general residential homestead exemption.

### **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 exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE." 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.

## **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 are designated for agricultural use, open space, inventory deferment or timberland.

## **Tax Abatement**

The City of Houston, Harris County and Fort Bend County may designate all or part of the District as a reinvestment zone, and the District, Harris County, Fort Bend County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by 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 a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

## **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 for the items specified in the Texas Property Tax Code. 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 municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Low Tax Rate Districts." 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.

#### *Low Tax Rate Districts*

Low Tax Rate Districts 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 Low Tax Rate District 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 Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

#### *Developing Districts*

Districts that do not meet the classification of a Low Tax Rate District 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 Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis. 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."

## **INVESTMENT CONSIDERATIONS**

### **General**

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

### **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. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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 as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition or rating. 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 or homebuilding activity 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 as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

### **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 "Engineer, the District's system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Water Plant No. 2 located in Harris-Fort Bend Counties Municipal Utility District No. 5, but having shared ownership with the District, experienced damage, but service was not interrupted. The District estimates that approximately 39 homes in the District experienced structural flooding as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

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

## **Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Taxable Assessed Valuation of the District (see “FINANCIAL STATEMENT”) is \$383,937,307. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,535,556 (2021) and the average annual debt service requirement will be \$1,257,142 (2021-2030). Assuming no increase or decrease from the 2019 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.43 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$1,535,556 and a tax rate of \$0.35 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,257,142. See “PLAN OF FINANCING—Debt Service Requirements.” Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2019 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. The 2020 Preliminary Taxable Assessed Valuation is \$388,310,038, which is subject to review and downward revision prior to certification, and maintains the above calculations of \$0.42 and \$0.35 per \$100 of assessed valuation, respectively. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

## **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$19,230,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding the outstanding bonds of the District, and \$18,990,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. In addition, the District may issue additional bonds approved by District voters in future elections. See “THE BONDS—Issuance of Additional Debt,” “Financing Road Facilities,” and “Financing Parks and Recreational Facilities.” The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued however, the principal amount of bonds issued to acquire or construct parks and recreational facilities may not exceed 1% of the District’s certified value. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The Engineer has stated that the District’s authorized but unissued bonds will be adequate, under present land use projections, to finance such improvements.

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



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

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

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

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

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of January 24, 2019, 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 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 has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The EPA published the NWPR in the Federal Register on April 21, 2020. The NWPR will go into effect on June 20, 2020, and will likely become the subject of further litigation.

Due to ongoing rulemaking activity, as well as existing and possible future litigation, 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.

### **Tax Collections Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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. 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.

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

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

#### **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.

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

The District has entered into an agreement with Build America Mutual Assurance Company ("BAM" or the "Insurer") for the purpose 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. 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.

## **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.

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign its municipal bond rating of "AA" (stable outlook) 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 Build America Mutual Assurance Company. S&P has also assigned an underlying credit rating of "A" to the Bonds without regard to credit enhancement.

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

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") 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.

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE."

#### *Additional Information Available from BAM*

*Credit Insights Videos:* For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Credit Profiles:* Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Disclaimers:* The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## 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 Schwartz, Page & Harding, L.L.P., 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. 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. The District will also furnish the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, to the effect that interest on the Bonds is excludable from gross income of the owners for federal income tax purposes under existing law and not subject to the alternative minimum tax on individuals, or, except as described therein, corporations.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., 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 and Special Tax 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.

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, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "PLAN OF FINANCING—Escrow Agreement," and "—Defeasance of the Refunded Bonds" (but only insofar as such section relates to the legal opinion of Bond Counsel), "THE BONDS," "THE DISTRICT—General", "—Strategic Partnership Agreement" and "—MANAGEMENT—Bond Counsel and General Counsel," "TAX PROCEDURES," and "LEGAL MATTERS—Legal Opinions" (insofar as such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. In its capacity as Special Tax Counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, has reviewed the information appearing in this Official Statement under the caption "LEGAL MATTERS—Legal Opinions" (insofar as such section relates to the opinion of Special Tax Counsel) and "TAX MATTERS" solely to determine whether such information fairly summarizes the law referred to therein. Such firms have 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 MATTERS**

### **Opinion**

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

In rendering their opinion, Special Tax Counsel will rely upon (a) the opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District's federal tax certificate and the verification report prepared by Public Finance Partners, LLC and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the District, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. 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 minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

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

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."

## **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 funds deposited with the Paying Agent as per the Escrow Agreement for the payment 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.

## **NO MATERIAL ADVERSE CHANGE**

The obligations of the Underwriter 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 condition (financial or otherwise) 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.

## 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" and "THE SYSTEM"—Van De Wiele & Vogler, Inc. "THE BONDS" and "LEGAL MATTERS – Legal Opinions" (insofar as such section relates to the legal opinion of Bond Counsel and Special Tax Counsel)—Schwartz, Page & Harding, L.L.P. and McCall, Parkhurst & Horton L.L.P., as applicable; "TAX MATTERS"—McCall, Parkhurst & Horton L.L.P.; "FINANCIAL STATEMENT" and "TAX DATA"—Harris County Appraisal District and Fort Bend Central Appraisal District, Equi-Tax, 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" and "THE SYSTEM" (as it relates to District facilities) has been provided by Van De Wiele and Vogler, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Tax Assessor Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Equi-Tax, Inc., and is included herein in reliance upon Equi-Tax, Inc. as an expert in collecting taxes.



Auditor: The financial statements of the District, as of September 30, 2019, and for the year then ended, included in this offering document, have been audited by Mark C. Eyring, CPA, PLLC, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s September 30, 2019 audited financial statements.

### **Updating the Official Statement**

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the 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.

## **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 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 annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “FINANCIAL STATEMENT,” “TAX DATA,” “THE SYSTEM,” “PLAN OF FINANCING—Debt Service Requirements,” and “WATER AND SEWER OPERATIONS” (most of which information is contained in the District’s annual audited financial statements and in Appendix A). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

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

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

### **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 Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "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 SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 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 SEC Rule 15c2-12 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:

## 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-Fort Bend Counties Municipal Utility District No. 1, as of the date shown on the cover page.

/s/ David Beyer  
President, Board of Directors

ATTEST:

/s/ Ron Lovett  
Secretary, Board of Directors

**APPENDIX A**

**Independent Auditor's Report and Financial Statements of the District  
for the year ended September 30, 2019**

HARRIS-FORT BEND COUNTIES  
MUNICIPAL UTILITY DISTRICT NO. 1  
HARRIS AND FORT BEND COUNTIES, TEXAS  
ANNUAL AUDIT REPORT  
SEPTEMBER 30, 2019

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# Mark C. Eyring, CPA, PLLC

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Mark@EyringCPA.com

January 21, 2020

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris-Fort Bend Counties Municipal  
Utility District No. 1  
Harris and Fort Bend Counties, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Harris-Fort Bend Counties Municipal Utility District No. 1, as of and for the year ended September 30, 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-Fort Bend Counties Municipal Utility District No. 1 as of September 30, 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 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21 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 22 to 40 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 black ink, appearing to read "M. A. J.", is located in the lower right portion of the page.



## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Harris-Fort Bend Counties Municipal Utility District No. 1 (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 September 30, 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. Other activities, such as security service and garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets 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. 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	\$ 6,437,549	\$ 6,112,180	\$ 325,369
Capital assets	10,611,297	10,982,171	(370,874)
Total assets	<u>17,048,846</u>	<u>17,094,351</u>	<u>(45,505)</u>
Long-term liabilities	11,058,305	12,218,901	(1,160,596)
Other liabilities	<u>1,386,644</u>	<u>1,392,173</u>	<u>(5,529)</u>
Total liabilities	<u>12,444,949</u>	<u>13,611,074</u>	<u>(1,166,125)</u>
Net position:			
Invested in capital assets, net of related debt	(1,607,604)	(2,328,099)	720,495
Restricted	1,199,408	1,491,476	(292,068)
Unrestricted	<u>5,012,093</u>	<u>4,319,900</u>	<u>692,193</u>
Total net position	<u>\$ 4,603,897</u>	<u>\$ 3,483,277</u>	<u>\$ 1,120,620</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 2,388,708	\$ 2,333,775	\$ 54,933
Charges for services	1,288,629	1,377,339	(88,710)
Other revenues	<u>169,397</u>	<u>90,523</u>	<u>78,874</u>
Total revenues	<u>3,846,734</u>	<u>3,801,637</u>	<u>45,097</u>
Expenses:			
Service operations	2,274,993	2,842,115	(567,122)
Debt service	<u>451,121</u>	<u>600,498</u>	<u>(149,377)</u>
Total expenses	<u>2,726,114</u>	<u>3,442,613</u>	<u>(716,499)</u>
Excess revenues (expenditures)	1,120,620	359,024	761,596
Special Items:			
Sale of sewer line capacity	<u>0</u>	<u>118,650</u>	<u>(118,650)</u>
Change in net position	1,120,620	477,674	642,946
Net position, beginning of year	<u>3,483,277</u>	<u>3,005,603</u>	<u>477,674</u>
Net position, end of year	<u>\$ 4,603,897</u>	<u>\$ 3,483,277</u>	<u>\$ 1,120,620</u>

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

The District's combined fund balances as of the end of the fiscal year ended September 30, 2019, were \$6,132,765, an increase of \$380,521 from the prior year.

The General Fund balance increased by \$686,620, as revenues and the reimbursement of \$95,033 from the Capital Projects Fund exceeded expenditures.

The Debt Service Fund balance decreased by \$208,308, in accordance with the District's financial plan.

The Capital Projects Fund decreased by \$97,791 as interest earnings exceeded authorized expenditures and the reimbursement of \$95,033 to the General Fund.

#### *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 actual to budgeted amounts is presented on Page 21 of this report. The budgetary fund balance as of September 30, 2019, was expected to be \$4,184,186 and the actual end of year fund balance was \$4,994,936.

### **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 detention ponds	\$ 2,095,216	\$ 2,095,216	\$ 0
Water facilities	1,758,807	1,829,946	(71,139)
Sewer facilities	3,209,045	3,356,057	(147,012)
Drainage facilities	3,548,229	3,700,952	(152,723)
Totals	<u>\$ 10,611,297</u>	<u>\$ 10,982,171</u>	<u>\$ (370,874)</u>

Changes to capital assets during the fiscal year ended September 30, 2019, are summarized as follows:

Decreases:	
Depreciation	<u>\$ (370,877)</u>
Net change to capital assets	<u>\$ (370,877)</u>

#### *Debt*

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

Bonded debt payable, beginning of year	\$ 13,275,000
Bonds paid	<u>(1,105,000)</u>
Bonded debt payable, end of year	<u>\$ 12,170,000</u>

At September 30, 2019, the District had \$18,990,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District has an underlying rating of A. The Series 2008, 2009, 2011 and 2013 bonds are insured by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance, Inc.) and the Series 2014, 2015 and 2018 bonds are insured by Build America Mutual Assurance Company. The insured rating of the outstanding bonds is AA by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2019.

## RELEVANT FACTORS AND WATER SUPPLY ISSUES

### *Property Tax Base*

The District's tax base increased approximately \$10,685,000 for the 2018 tax year (approximately 3%) primarily due to the increase in assessed valuation on existing property.

### *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 a Strategic Partnership Agreement ("SPA") effective as of December 19, 2011 (amended and restated effective June 8, 2015). The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. 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 SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. 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.

### *Water Supply Issues*

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. On September 24, 2003, the Subsidence District issued a District Regulatory Plan (the "Plan") to reduce groundwater withdrawal through conversion to surface water or other alternative water sources in certain areas within the Subsidence District's jurisdiction. Under the Plan, the District was required to have a groundwater reduction plan ("GRP") approved by the Subsidence District by the beginning date of the District's permit term that commenced in 2008, or pay a disincentive fee for any groundwater withdrawn in excess of 40% of the District's total water demand. Additional disincentive fees would be imposed under the Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2014, and exceeds 40% of the District's total water demand beginning January of 2025. The Texas Legislature has created the North Fort Bend 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. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. As of September 30, 2019, the Authority had established a pumpage fee of \$3.65 per 1,000 gallons of groundwater pumped, payable monthly. The pumpage fee is expected to increase in the future. As of September 30, 2019, the Authority had established a surface water fee of \$4.00 per 1,000 gallons of surface water purchased, payable monthly. The surface water fee is expected to increase in the future.

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.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 7	\$ 350,229	\$ 103,541	\$ 7,548	\$ 461,318	\$	\$ 461,318
Certificates of deposit, at cost, Note 7	1,920,000			1,920,000		1,920,000
Temporary investments, at cost, Note 7	2,450,311	963,207	72,876	3,486,394		3,486,394
Receivables:						
Property taxes	17,157	36,231		53,388		53,388
Accrued penalty and interest on property taxes				0	25,348	25,348
Service accounts	145,109			145,109		145,109
Accrued interest	21,427			21,427		21,427
Sales and Use Taxes, Note 11	6,541			6,541		6,541
Due from other district	107,003			107,003		107,003
Prepaid expenditures	22,588			22,588		22,588
Maintenance taxes collected not yet transferred from other fund	4,555			4,555	(4,555)	0
Deposits at joint ventures, Note 9	188,433			188,433		188,433
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	2,095,216	2,095,216
Depreciable capital assets				0	8,516,081	8,516,081
<b>Total assets</b>	<b><u>\$5,233,353</u></b>	<b><u>\$1,102,979</u></b>	<b><u>\$ 80,424</u></b>	<b><u>\$ 6,416,756</u></b>	<b><u>10,632,090</u></b>	<b><u>17,048,846</u></b>
<b>LIABILITIES</b>						
Accounts payable	\$ 69,757	\$ 4,788	\$	\$ 74,545		74,545
Customer and builder deposits	151,503			151,503		151,503
Maintenance taxes collected not yet transferred to other fund		4,555		4,555	(4,555)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,160,596	1,160,596
Due in more than one year				0	11,058,305	11,058,305
<b>Total liabilities</b>	<b><u>221,260</u></b>	<b><u>9,343</u></b>	<b><u>0</u></b>	<b><u>230,603</u></b>	<b><u>12,214,346</u></b>	<b><u>12,444,949</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	<u>17,157</u>	<u>36,231</u>	<u>0</u>	<u>53,388</u>	<u>(53,388)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Nonspendable:						
Reserve at joint ventures, Note 9	188,433			188,433	(188,433)	0
Assigned to:						
Debt service		1,057,405		1,057,405	(1,057,405)	0
Capital projects			80,424	80,424	(80,424)	0
Unassigned	<u>4,806,503</u>			<u>4,806,503</u>	<u>(4,806,503)</u>	<u>0</u>
<b>Total fund balances</b>	<b><u>4,994,936</u></b>	<b><u>1,057,405</u></b>	<b><u>80,424</u></b>	<b><u>6,132,765</u></b>	<b><u>(6,132,765)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$5,233,353</u></b>	<b><u>\$1,102,979</u></b>	<b><u>\$ 80,424</u></b>	<b><u>\$ 6,416,756</u></b>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(1,607,604)	(1,607,604)
Restricted for debt service					1,118,984	1,118,984
Restricted for capital projects					80,424	80,424
Unrestricted					<u>5,012,093</u>	<u>5,012,093</u>
<b>Total net position</b>					<b><u>\$ 4,603,897</u></b>	<b><u>\$ 4,603,897</u></b>

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

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 1,026,378	\$ 1,330,665	\$	\$ 2,357,043	\$ 12,717	\$ 2,369,760
Water service	368,743			368,743		368,743
Sewer service	370,369			370,369		370,369
Surface water fees, Note 10	502,657			502,657		502,657
Penalty and interest	21,827	12,061		33,888	6,887	40,775
Sales and Use Taxes, Note 11	29,598			29,598		29,598
Interest on deposits and investments	106,472	31,211	2,116	139,799		139,799
Other revenues	25,033			25,033		25,033
<b>Total revenues</b>	<b>2,451,077</b>	<b>1,373,937</b>	<b>2,116</b>	<b>3,827,130</b>	<b>19,604</b>	<b>3,846,734</b>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Purchased services, Note 9	381,298			381,298		381,298
Professional fees	151,774	6,925		158,699		158,699
Contracted services	97,462	32,169		129,631		129,631
Utilities	7,912			7,912		7,912
Ground water pumpage fees, Note 10	527,830			527,830		527,830
Repairs, maintenance and other operating expenditures	223,566			223,566		223,566
Security service	229,890			229,890		229,890
Garbage disposal	208,126			208,126		208,126
Administrative expenditures	31,632	5,535		37,167		37,167
Depreciation				0	370,874	370,874
Debt service:						
Principal retirement		1,105,000		1,105,000	(1,105,000)	0
Bond issuance expenditures			4,874	4,874		4,874
Interest and fees		432,616		432,616	13,631	446,247
<b>Total expenditures / expenses</b>	<b>1,859,490</b>	<b>1,582,245</b>	<b>4,874</b>	<b>3,446,609</b>	<b>(720,495)</b>	<b>2,726,114</b>
Excess (deficiency) of revenues over expenditures	591,587	(208,308)	(2,758)	380,521	740,099	1,120,620
<b>OTHER FINANCING SOURCES (USES)</b>						
Reimbursement (to) from other fund, Note 7	95,033	0	(95,033)	0	0	0
Net change in fund balances / net position	686,620	(208,308)	(97,791)	380,521	740,099	1,120,620
Beginning of year	4,308,316	1,265,713	178,215	5,752,244	(2,268,967)	3,483,277
End of year	\$ 4,994,936	\$ 1,057,405	\$ 80,424	\$ 6,132,765	\$ (1,528,868)	\$ 4,603,897

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

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2019

## NOTE 1: REPORTING ENTITY

Harris-Fort Bend Counties Municipal Utility District No. 1 (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality) effective June 27, 1978, 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 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, and to provide parks and recreational facilities and equipment. 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. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.



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 either not spendable, restricted, committed, assigned or unassigned. Nonspendable 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.

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 \$5,000 (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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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		\$ 6,132,765
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		10,611,297
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	\$ (12,170,000)	
Deferred charge on refunding (to be amortized as interest expense)	70,328	
Issuance premium (to be amortized as interest expense)	<u>(119,229)</u>	(12,218,901)
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	25,348	
Uncollected property taxes	<u>53,388</u>	<u>78,736</u>
Net position, end of year		<u>\$ 4,603,897</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		\$ 380,521
<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>		
Depreciation		(370,874)
<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		1,105,000
<p>The funds report the effect of bond issuance costs, 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>		
Refunding charges	\$ (19,527)	
Issuance premium	<u>5,896</u>	(13,631)
<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	6,887	
Uncollected property taxes	<u>12,717</u>	<u>19,604</u>
Change in net position		<u>\$ 1,120,620</u>

NOTE 4: CAPITAL ASSETS

At September 30, 2019, "Invested in capital assets, net of related debt" was \$(1,607,604). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. 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 September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and detention ponds	\$ 2,095,216	\$	\$	\$ 2,095,216
Construction in progress	<u>0</u>			<u>0</u>
Total capital assets not being depreciated	<u>2,095,216</u>	<u>0</u>	<u>0</u>	<u>2,095,216</u>
Depreciable capital assets:				
Water system	3,522,131			3,522,131
Sewer system	5,633,494			5,633,494
Drainage system	<u>6,867,351</u>			<u>6,867,351</u>
Total depreciable capital assets	<u>16,022,976</u>	<u>0</u>	<u>0</u>	<u>16,022,976</u>
Less accumulated depreciation for:				
Water system	(1,692,185)	(71,139)		(1,763,324)
Sewer system	(2,277,437)	(147,012)		(2,424,449)
Drainage system	<u>(3,166,399)</u>	<u>(152,723)</u>		<u>(3,319,122)</u>
Total accumulated depreciation	<u>(7,136,021)</u>	<u>(370,874)</u>	<u>0</u>	<u>(7,506,895)</u>
Total depreciable capital assets, net	<u>8,886,955</u>	<u>(370,874)</u>	<u>0</u>	<u>8,516,081</u>
Total capital assets, net	<u>\$ 10,982,171</u>	<u>\$ (370,874)</u>	<u>\$ 0</u>	<u>\$ 10,611,297</u>
Changes to capital assets:				
Less depreciation expense for the fiscal year		<u>\$ (370,874)</u>	<u>\$ 0</u>	
Net increases / decreases to capital assets		<u>\$ (370,874)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 13,275,000	\$	\$ 1,105,000	\$ 12,170,000	\$ 1,145,000
Deferred amounts:					
For issuance premium	125,125		5,896	119,229	33,378
For refunding	<u>(89,855)</u>		<u>(19,527)</u>	<u>(70,328)</u>	<u>(17,782)</u>
Total bonds payable	<u>13,310,270</u>	<u>0</u>	<u>1,091,369</u>	<u>12,218,901</u>	<u>1,160,596</u>
Total long-term liabilities	<u>\$ 13,310,270</u>	<u>\$ 0</u>	<u>\$ 1,091,369</u>	<u>\$ 12,218,901</u>	<u>\$ 1,160,596</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2019, the debt service requirements on the bonds outstanding were follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,145,000	\$ 390,932	\$ 1,535,932
2021	1,185,000	350,232	1,535,232
2022	1,225,000	308,401	1,533,401
2023	1,190,000	265,993	1,455,993
2024	1,230,000	223,957	1,453,957
2025 - 2029	5,175,000	556,959	5,731,959
2030	<u>1,020,000</u>	<u>15,300</u>	<u>1,035,300</u>
	<u>\$ 12,170,000</u>	<u>\$ 2,111,774</u>	<u>\$ 14,281,774</u>

Bonds voted	\$ 43,790,000
Bonds approved for sale and sold	24,800,000
Bonds voted and not issued	18,990,000
Refunding bonds voted	19,706,852
Refunding bonds approved for sale and sold	476,852
Refunding bonds voted and not issued	19,230,000

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 bond issues payable at September 30, 2019, were as follows:

	<u>Series 2008</u>	<u>Refunding Series 2011</u>	<u>Series 2013</u>
Amounts outstanding, September 30, 2019	\$1,340,000	\$1,510,000	\$1,585,000
Interest rates	4.50%	4.00%	3.00%
Maturity dates, serially beginning/ending	April 1, 2020/2029	April 1, 2020/2022	April 1, 2023/2030
Interest payment dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable dates	April 1, 2018*	April 1, 2020*	April 1, 2020*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2014</u>	<u>Refunding Series 2015</u>	<u>Series 2018</u>
Amounts outstanding, September 30, 2019	\$3,070,000	\$2,580,000	\$2,085,000
Interest rates	3.00% to 3.75%	2.50% to 3.125%	2.50% to 3.00%
Maturity dates, serially beginning/ending	April 1, 2020/2025	April 1, 2020/2027	April 1, 2026/2030
Interest payment dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable dates	April 1, 2022*	April 1, 2022*	April 1, 2025*

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

Developer Construction Commitments and Liabilities

At September 30, 2019, there were no developer construction commitments or liabilities.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District and the Fort Bend Central Appraisal District have 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 December 17, 1983, the voters within the District authorized a maintenance tax not to exceed \$0.50 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.

On October 16, 2018, the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$382,140,008:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.3500	\$ 1,337,992
Maintenance	<u>0.2700</u>	<u>1,032,165</u>
	<u>\$ 0.6200</u>	<u>\$ 2,370,157</u>

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

2018 tax year total property tax levy	\$ 2,370,157
Appraisal district adjustments to prior year taxes	<u>(397)</u>
Statement of Activities property tax revenues	<u>\$ 2,369,760</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

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 and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

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 \$2,381,318 and the bank balance was \$2,439,872. Of the bank balance, \$2,211,880 was covered by federal insurance and \$227,992 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$3,486,394.

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	\$ 103,541
Temporary investments	<u>963,207</u>
	<u>\$ 1,066,748</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 7,548
Temporary investments	<u>72,876</u>
	<u>\$ 80,424</u>

During the fiscal year ended September 30, 2019, the District reimbursed \$95,033 to the General Fund from the Capital Projects Fund in accordance with the rules of the Texas Commission on Environmental Quality.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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 September 30, 2019, the District had physical damage and boiler and machinery coverage of \$1,250,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, consultant's crime coverage of \$10,000 and a tax assessor-collector bond of \$10,000.

**NOTE 9: CONTRACTS WITH OTHER DISTRICTS**

Water Supply Facilities

On April 21, 1994 (amended April 11, 2000, January 16, 2001, June 10, 2003, March 14, 2006 and December 16, 2009), the District and Harris-Fort Bend Counties Municipal Utility District No. 5 ("No. 5") entered into a 40 year water supply contract. As of September 30, 2019, ownership and capacity in the joint water supply plants are as follows: The District - 38.86%; No. 5 - 61.14%. Under the terms of the contract, No. 5 is the operator of the joint facilities. Operating costs of the joint water supply plants are shared based upon percentage of ownership. The District incurred operating costs of \$207,083 during the fiscal year ended September 30, 2019. At this date, the District had deposited \$135,566 as its share of an operating reserve. Separate financial statements of the joint facilities are not available.

Wastewater Treatment Facilities

On April 21, 1994 (amended April 11, 2000, December 18, 2002, March 11, 2003, November 19, 2003, July 12, 2005, December 16, 2009, January 1, 2013 and September 16, 2014), the District and No. 5 entered into a 40 year waste disposal agreement. As of September 30, 2019, ownership and capacity in the joint wastewater treatment facilities are as follows: The District - 39.37%; No. 5 - 60.63%. Under the terms of the agreement, No. 5 is the operator of the joint facilities. Certain operating costs of the joint facilities are shared based upon percentage of ownership and the remaining costs are shared based upon the metered flow into the wastewater treatment plant. The District incurred operating costs of \$174,215 during the fiscal year ended September 30, 2019. At this date, the District had deposited \$52,867 as its share of an operating reserve. Separate financial statements of the joint facilities are not available.

**NOTE 10: REGIONAL WATER AUTHORITY**

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. On September 24, 2003, the Subsidence District issued a District Regulatory Plan (the "Plan") to reduce groundwater withdrawal through conversion to surface water or other alternative water sources in certain areas within the Subsidence District's jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Under the Plan, the District was required to have a groundwater reduction plan (“GRP”) approved by the Subsidence District by the beginning date of the District’s permit term in 2008, or pay a disincentive fee for any groundwater withdrawn in excess of 40% of the District’s total water demand. Additional disincentive fees would be imposed under the Plan if the District’s groundwater withdrawal exceeds 70% of the District’s total water demand beginning January 2014, and exceeds 40% of the District’s total water demand beginning January of 2025. The Texas Legislature has created the North Fort Bend 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. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. As of September 30, 2019, the Authority had established a fee of \$3.65 per 1,000 gallons of groundwater pumped, payable monthly. The well pumpage fees payable by the District to the Authority for the fiscal year ended September 30, 2019, were \$527,830. The District billed its customers \$502,657 during the fiscal year to pay for the fees charged by the Authority.

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.

**NOTE 11: STRATEGIC PARTNERSHIP AGREEMENT**

Effective December 19, 2011 (amended and restated effective June 8, 2015), the District and the City of Houston (the “City”) entered into a 30 year Strategic Partnership Agreement (the “Agreement”). Under the terms of the Agreement, the City annexed a portion of the District (the “Partial District”) for limited purposes. The Agreement 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 Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District 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 \$29,598 from the City for the fiscal year ended September 30, 2019, of which \$6,541 was receivable at that date.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 1,000,700	\$ 1,000,700	\$ 1,026,378	\$ 25,678
Water service	421,200	421,200	368,743	(52,457)
Sewer service	370,000	370,000	370,369	369
Surface water fees	595,720	595,720	502,657	(93,063)
Penalty	18,000	18,000	21,827	3,827
Tap connection and inspection fees	5,000	5,000	0	(5,000)
Sales and Use Taxes	24,000	24,000	29,598	5,598
Interest on deposits and investments	52,500	52,500	106,472	53,972
Other revenues	25,000	25,000	25,033	33
<b>TOTAL REVENUES</b>	<b>2,512,120</b>	<b>2,512,120</b>	<b>2,451,077</b>	<b>(61,043)</b>
<b>EXPENDITURES</b>				
Service operations:				
Purchased services	405,000	405,000	381,298	(23,702)
Professional fees	183,000	183,000	151,774	(31,226)
Contracted services	88,800	88,800	97,462	8,662
Utilities	23,000	23,000	7,912	(15,088)
Ground water pumpage fees	595,750	595,750	527,830	(67,920)
Repairs, maintenance and other operating expenditures	334,700	334,700	223,566	(111,134)
Security service	223,200	223,200	229,890	6,690
Garbage disposal	211,200	211,200	208,126	(3,074)
Administrative expenditures	74,700	74,700	31,632	(43,068)
Capital outlay	496,900	496,900	0	(496,900)
<b>TOTAL EXPENDITURES</b>	<b>2,636,250</b>	<b>2,636,250</b>	<b>1,859,490</b>	<b>(776,760)</b>
<b>EXCESS REVENUES (EXPENSES)</b>	<b>(124,130)</b>	<b>(124,130)</b>	<b>591,587</b>	<b>715,717</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Reimbursement from other fund	0	0	95,033	95,033
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<b>0</b>	<b>0</b>	<b>95,033</b>	<b>95,033</b>
<b>EXCESS SOURCES (USES)</b>	<b>(124,130)</b>	<b>(124,130)</b>	<b>686,620</b>	<b>810,750</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>4,308,316</b>	<b>4,308,316</b>	<b>4,308,316</b>	<b>0</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 4,184,186</b>	<b>\$ 4,184,186</b>	<b>\$ 4,994,936</b>	<b>\$ 810,750</b>

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.

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
SEPTEMBER 30, 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. Certificates of Deposit
- [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-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2019

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

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input checked="" 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 checked="" type="checkbox"/> Security |
| <input checked="" 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:	\$15.00	5,000	N	\$2.00	5,001 to 10,000
				2.50	10,001 to 20,000
				3.00	20,001 to 30,000
				3.50	30,001 to 40,000
				4.00	Over 40,000

WASTEWATER: \$24.61 N/A Y

SURCHARGE: \$3.83 per 1,000 gallons of water used. – NFBWA ground water pumpage fees.

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$25.00 Wastewater: \$24.61 Surcharge: \$38.30

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 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"	909	904	1.0	904
1"	348	346	2.5	865
1-1/2"	2	2	5.0	10
2"	10	10	8.0	80
3"	1	1	15.0	15
4"	0	0	25.0	0
6"	1	1	50.0	50
8"	1	1	80.0	80
10"	0	0	115.0	0
Total Water	<u>1,272</u>	<u>1,265</u>		<u>2,004</u>
Total Wastewater	<u>1,252</u>	<u>1,245</u>	1.0	<u>1,245</u>

\*Single family equivalents

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

Gallons pumped into system (unaudited): 316,589 (Water furnished through joint water supply plant.  
 Gallons billed to customers (unaudited): 302,119 See Note 9.)

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 95%

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-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CURRENT</b>				
Purchased services:				
Water	\$ 207,083	\$	\$	\$ 207,083
Sewer	174,215			174,215
	<u>381,298</u>	<u>0</u>	<u>0</u>	<u>381,298</u>
Professional fees:				
Auditing	11,450			11,450
Legal	87,148	6,925		94,073
Engineering	53,176			53,176
	<u>151,774</u>	<u>6,925</u>	<u>0</u>	<u>158,699</u>
Contracted services:				
Bookkeeping	18,976			18,976
Operation and billing	78,486			78,486
Tax assessor-collector		15,852		15,852
Central appraisal district		16,317		16,317
	<u>97,462</u>	<u>32,169</u>	<u>0</u>	<u>129,631</u>
Utilities	<u>7,912</u>	<u>0</u>	<u>0</u>	<u>7,912</u>
Ground water pumpage fees	<u>527,830</u>	<u>0</u>	<u>0</u>	<u>527,830</u>
Repairs, maintenance and other operating expenditures:				
Repairs and maintenance	219,733			219,733
TCEQ assessment	3,598			3,598
Other	235			235
	<u>223,566</u>	<u>0</u>	<u>0</u>	<u>223,566</u>
Security service	<u>229,890</u>	<u>0</u>	<u>0</u>	<u>229,890</u>
Garbage disposal	<u>208,126</u>	<u>0</u>	<u>0</u>	<u>208,126</u>
Administrative expenditures:				
Director's fees	8,250			8,250
Office supplies and postage	7,244			7,244
Insurance	8,762	100		8,862
Permit fees	3,172			3,172
Other	4,204	5,435		9,639
	<u>31,632</u>	<u>5,535</u>	<u>0</u>	<u>37,167</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>1,105,000</u>	<u>0</u>	<u>1,105,000</u>
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>4,874</u>	<u>4,874</u>
Interest and fees:				
Interest		428,397		428,397
Paying agent fees		4,219		4,219
	<u>0</u>	<u>432,616</u>	<u>0</u>	<u>432,616</u>
<b>TOTAL EXPENDITURES</b>	<u><b>\$ 1,859,490</b></u>	<u><b>\$ 1,582,245</b></u>	<u><b>\$ 4,874</b></u>	<u><b>\$ 3,446,609</b></u>

See accompanying independent auditor's report.



HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash receipts from revenues excluding maintenance taxes	\$ 1,416,140	\$ 1,373,937	\$ 2,116	\$ 2,792,193
Maintenance tax receipts		1,026,378		1,026,378
Transfer of maintenance taxes	1,029,128			1,029,128
Reimbursement from other fund	95,033			95,033
Increase in customer and builder deposits	11,953			11,953
Overpayments from taxpayers		<u>9,471</u>		<u>9,471</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>2,552,254</u>	<u>2,409,786</u>	<u>2,116</u>	<u>4,964,156</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash disbursements for:				
Current expenditures	1,950,206	43,939		1,994,145
Capital outlay				0
Debt service		1,537,616	4,874	1,542,490
Other district	72,754			72,754
Transfer of maintenance taxes		1,029,128		1,029,128
Reimbursement to other fund			95,033	95,033
Increase in deposits at joint ventures	13,507			13,507
Refund of taxpayer overpayments		<u>9,469</u>		<u>9,469</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>2,036,467</u>	<u>2,620,152</u>	<u>99,907</u>	<u>4,756,526</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	515,787	(210,366)	(97,791)	207,630
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>4,204,813</u>	<u>1,277,114</u>	<u>178,215</u>	<u>5,660,142</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 4,720,540</u>	<u>\$ 1,066,748</u>	<u>\$ 80,424</u>	<u>\$ 5,867,712</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

SEPTEMBER 30, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 80002221	2.72%	3/20/20	\$ 240,000	\$ 3,470
No. 0107362900	2.75%	3/21/20	240,000	3,454
No. 0460019540	2.65%	6/25/20	240,000	1,690
No. 95900011890617	2.75%	6/25/20	240,000	1,754
No. 5575	2.67%	3/17/20	240,000	3,458
No. 471	2.50%	3/20/20	240,000	3,189
No. 1852003777	2.75%	3/22/20	240,000	3,472
No. 6000037363	2.60%	8/06/20	<u>240,000</u>	<u>940</u>
			<u>\$ 1,920,000</u>	<u>\$ 21,427</u>
TexPool				
No. 449257610003	Market	On demand	\$ 902,237	\$ 0
No. 449257610004	Market	On demand	<u>1,548,074</u>	<u>0</u>
			<u>\$ 2,450,311</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
TexPool				
No. 449257610001	Market	On demand	<u>\$ 963,207</u>	<u>\$ 0</u>
CAPITAL PROJECTS FUND				
TexPool				
No. 449257610002	Market	On demand	<u>\$ 72,876</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 5,406,394</u>	<u>\$ 21,427</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 11,584	\$ 29,087
Additions and corrections to prior year taxes	<u>(214)</u>	<u>(183)</u>
Adjusted receivable, beginning of year	11,370	28,904
2018 ADJUSTED TAX ROLL	<u>1,032,165</u>	<u>1,337,992</u>
Total to be accounted for	1,043,535	1,366,896
Tax collections: Current tax year	(1,024,725)	(1,328,348)
Prior tax years	<u>(1,653)</u>	<u>(2,317)</u>
RECEIVABLE, END OF YEAR	<u>\$ 17,157</u>	<u>\$ 36,231</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 1,017	\$ 7,396
2009	385	1,732
2010	316	1,508
2011	316	1,459
2012	612	2,447
2013	694	2,103
2014	974	2,130
2015	1,268	2,121
2016	1,349	2,079
2017	2,786	3,612
2018	<u>7,440</u>	<u>9,644</u>
RECEIVABLE, END OF YEAR	<u>\$ 17,157</u>	<u>\$ 36,231</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1TAXES LEVIED AND RECEIVABLE (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 66,638,271	\$ 64,446,968	\$ 62,603,638	\$ 62,396,486
Improvements	318,999,641	311,882,386	313,057,560	303,750,094
Personal property	5,107,342	5,024,400	4,722,970	3,021,602
Less exemptions	<u>(8,605,246)</u>	<u>(9,897,922)</u>	<u>(11,450,149)</u>	<u>(24,781,552)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<b><u>\$ 382,140,008</u></b>	<b><u>\$ 371,455,832</u></b>	<b><u>\$ 368,934,019</u></b>	<b><u>\$ 344,386,630</u></b>
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.35000	\$ 0.35000	\$ 0.37000	\$ 0.41000
Maintenance tax rates*	<u>0.27000</u>	<u>0.27000</u>	<u>0.24000</u>	<u>0.24500</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<b><u>\$ 0.62000</u></b>	<b><u>\$ 0.62000</u></b>	<b><u>\$ 0.61000</u></b>	<b><u>\$ 0.65500</u></b>
TAX ROLLS	<u>\$ 2,370,157</u>	<u>\$ 2,303,176</u>	<u>\$ 2,250,506</u>	<u>\$ 2,255,744</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.3 %</u>	<u>99.7 %</u>	<u>99.9 %</u>	<u>99.9 %</u>

\*Maximum tax rate approved by voters on December 17, 1983: \$0.50

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS

SEPTEMBER 30, 2019

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2019, the debt service requirements on the bonds outstanding were follows:

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2008</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 50,000	\$ 59,175	\$ 109,175
2021	50,000	56,925	106,925
2022	50,000	54,675	104,675
2023	145,000	50,287	195,287
2024	150,000	43,650	193,650
2025	160,000	36,675	196,675
2026	170,000	29,250	199,250
2027	180,000	21,375	201,375
2028	185,000	13,163	198,163
2029	200,000	4,500	204,500
<b>TOTALS</b>	<b><u>\$ 1,340,000</u></b>	<b><u>\$ 369,675</u></b>	<b><u>\$ 1,709,675</u></b>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2011</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 670,000	\$ 47,000	\$ 717,000
2021	410,000	25,400	435,400
2022	430,000	8,600	438,600
<b>TOTALS</b>	<b><u>\$ 1,510,000</u></b>	<b><u>\$ 81,000</u></b>	<b><u>\$ 1,591,000</u></b>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)SEPTEMBER 30, 2019

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2019, the debt service requirements on the bonds outstanding were follows:

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2013</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$	\$ 47,550	\$ 47,550
2021		47,550	47,550
2022		47,550	47,550
2023	100,000	46,050	146,050
2024	200,000	41,550	241,550
2025	200,000	35,550	235,550
2026	200,000	29,550	229,550
2027	200,000	23,550	223,550
2028	200,000	17,550	217,550
2029	200,000	11,550	211,550
2030	285,000	4,275	289,275
TOTALS	<u>\$ 1,585,000</u>	<u>\$ 352,275</u>	<u>\$ 1,937,275</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2014</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 265,000	\$ 100,163	\$ 365,163
2021	565,000	87,713	652,713
2022	585,000	69,732	654,732
2023	735,000	47,362	782,362
2024	450,000	26,063	476,063
2025	470,000	8,813	478,813
TOTALS	<u>\$ 3,070,000</u>	<u>\$ 339,846</u>	<u>\$ 3,409,846</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)SEPTEMBER 30, 2019

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2019, the debt service requirements on the bonds outstanding were follows:

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2015</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 160,000	\$ 75,244	\$ 235,244
2021	160,000	70,844	230,844
2022	160,000	66,044	226,044
2023	210,000	60,494	270,494
2024	430,000	50,894	480,894
2025	450,000	37,694	487,694
2026	495,000	23,518	518,518
2027	515,000	5,046	520,046
TOTALS	<u>\$ 2,580,000</u>	<u>\$ 389,778</u>	<u>\$ 2,969,778</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2018</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$	\$ 61,800	\$ 61,800
2021		61,800	61,800
2022		61,800	61,800
2023		61,800	61,800
2024		61,800	61,800
2025		61,800	61,800
2026	100,000	60,550	160,550
2027	100,000	57,925	157,925
2028	565,000	48,075	613,075
2029	585,000	30,825	615,825
2030	735,000	11,025	746,025
TOTALS	<u>\$ 2,085,000</u>	<u>\$ 579,200</u>	<u>\$ 2,664,200</u>

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)SEPTEMBER 30, 2019

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2019, the debt service requirements on the bonds outstanding were follows:

<u>Due During Fiscal Years Ending September 30</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2020	\$ 1,145,000	\$ 390,932	\$ 1,535,932
2021	1,185,000	350,232	1,535,232
2022	1,225,000	308,401	1,533,401
2023	1,190,000	265,993	1,455,993
2024	1,230,000	223,957	1,453,957
2025	1,280,000	180,532	1,460,532
2026	965,000	142,868	1,107,868
2027	995,000	107,896	1,102,896
2028	950,000	78,788	1,028,788
2029	985,000	46,875	1,031,875
2030	1,020,000	15,300	1,035,300
TOTALS	<u>\$ 12,170,000</u>	<u>\$ 2,111,774</u>	<u>\$ 14,281,774</u>

See accompanying independent auditor's report.



HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM DEBT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series:	2008	2011	2013
Interest Rate:	4.50%	4.00%	3.00%
Dates Interest Payable:	April 1/ October 1	April 1/ October 1	April 1/ October 1
Maturity Dates:	April 1, 2020/2029	April 1, 2020/2022	April 1, 2023/2030
Bonds Outstanding at Beginning of Current Year	\$ 1,390,000	\$ 2,155,000	\$ 1,585,000
Less Retirements	<u>(50,000)</u>	<u>(645,000)</u>	<u>0</u>
Bonds Outstanding at End of Current Year	<u>\$ 1,340,000</u>	<u>\$ 1,510,000</u>	<u>\$ 1,585,000</u>
Current Year Interest Paid:	<u>\$ 61,425</u>	<u>\$ 70,478</u>	<u>\$ 47,550</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2008 (\$1,790,000)
- (2) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2011 (\$3,090,000)
- (3) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2013 (\$1,585,000)

Paying Agent/Registrar

- (1) (3) Regions Bank, Houston, Texas
- (2) U.S. Bank, N.A., Houston, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 43,790,000	\$ 0	19,706,852
Amount Issued:	24,800,000		476,852
Remaining to be Issued:	18,990,000		19,230,000

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM DEBT (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(4)</u>	<u>(5)</u>	<u>(6)</u>	<u>Totals</u>
Bond Series:	2014	2015	2018	
Interest Rate:	3.00% to 3.75%	2.50% to 3.125%	2.50% to 3.00%	
Dates Interest Payable:	April 1/ October 1	April 1/ October 1	April 1/ October 1	
Maturity Dates:	April 1, 2020/2025	April 1, 2020/2027	April 1, 2026/2030	
Bonds Outstanding at Beginning of Current Year	\$ 3,325,000	\$ 2,735,000	\$ 2,085,000	\$ 13,275,000
Less Retirements	<u>(255,000)</u>	<u>(155,000)</u>	<u>0</u>	<u>(1,105,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,070,000</u>	<u>\$ 2,580,000</u>	<u>\$ 2,085,000</u>	<u>\$ 12,170,000</u>
Current Year Interest Paid:	<u>\$ 107,962</u>	<u>\$ 79,182</u>	<u>\$ 61,800</u>	<u>\$ 428,397</u>

Bond Descriptions and Original Amount of Issue

- (4) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2014 (\$4,280,000)
- (5) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2015 (\$3,190,000)
- (6) Harris-Fort Bend Counties Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2018 (\$2,085,000)

Paying Agent/Registrar

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

Net Debt Service Fund deposits and investments balances as of September 30, 2019: \$ 1,057,405  
Average annual debt service payment for remaining term of all debt: 1,298,343

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
<b>REVENUES</b>										
Property taxes	\$ 1,026,378	\$ 1,004,120	\$ 883,421	\$ 839,399	\$ 660,068	42.0 %	41.1 %	40.0 %	39.4 %	33.1 %
Water service	368,743	401,991	389,668	405,759	389,033	15.0	16.4	17.7	19.1	19.5
Sewer service	370,369	371,432	365,812	363,270	361,455	15.1	15.2	16.6	17.1	18.1
Surface water fees	502,657	512,911	458,977	428,551	359,516	20.5	20.9	20.8	20.1	18.0
Penalty	21,827	15,570	18,831	25,934	23,074	0.9	0.6	0.9	1.2	1.2
Tap connection and inspection fees	0	44,145	6,040	4,000	148,920	0.0	1.8	0.3	0.2	7.5
Sales and Use Taxes	29,598	23,131	29,729	23,059	19,551	1.2	0.9	1.3	1.1	1.0
Interest on deposits and investments	106,472	44,738	17,617	10,620	9,468	4.3	1.8	0.8	0.5	0.5
Other revenues	25,033	31,290	35,555	28,140	22,608	1.0	1.3	1.6	1.3	1.1
<b>TOTAL REVENUES</b>	<b>2,451,077</b>	<b>2,449,328</b>	<b>2,205,650</b>	<b>2,128,732</b>	<b>1,993,693</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Service operations:										
Purchased services	381,298	394,386	325,800	253,035	291,381	15.6	16.0	14.8	11.9	14.6
Professional fees	151,774	190,348	145,723	161,365	140,523	6.2	7.8	6.6	7.6	7.0
Contracted services	97,462	88,744	95,249	87,516	82,854	4.0	3.6	4.3	4.1	4.2
Utilities	7,912	9,435	9,728	10,043	8,418	0.3	0.4	0.4	0.5	0.4
Ground water pumpage fees	527,830	491,396	491,317	433,114	379,280	21.4	20.0	22.4	20.4	19.1
Repairs, maintenance and other operating expenditures	223,566	182,698	308,230	203,009	224,790	9.2	7.5	13.9	9.5	11.2
Security service	229,890	202,469	230,119	183,943	195,706	9.4	8.3	10.4	8.6	9.8
Garbage disposal	208,126	221,036	202,566	197,804	197,436	8.5	9.0	9.2	9.3	9.9
Administrative expenditures	31,632	41,092	38,648	46,396	41,607	1.3	1.7	1.8	2.2	2.1
Capital outlay	0	128,739	366,951	32,295	326,546	0.0	5.3	16.6	1.5	16.4
<b>TOTAL EXPENDITURES</b>	<b>1,859,490</b>	<b>1,950,343</b>	<b>2,214,331</b>	<b>1,608,520</b>	<b>1,888,541</b>	<b>75.9</b>	<b>79.6</b>	<b>100.4</b>	<b>75.6</b>	<b>94.7</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 591,587</b>	<b>\$ 498,985</b>	<b>\$ (8,681)</b>	<b>\$ 520,212</b>	<b>\$ 105,152</b>	<b>24.1 %</b>	<b>20.4 %</b>	<b>(0.4) %</b>	<b>24.4 %</b>	<b>5.3 %</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,265</b>	<b>1,262</b>	<b>1,257</b>	<b>1,255</b>	<b>1,251</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,245</b>	<b>1,242</b>	<b>1,238</b>	<b>1,236</b>	<b>1,232</b>					

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
<b>REVENUES</b>										
Property taxes	\$ 1,330,665	\$ 1,302,660	\$ 1,361,879	\$ 1,408,063	\$ 1,447,541	96.8 %	95.8 %	97.6 %	97.9 %	98.1 %
Penalty and interest	12,061	33,059	24,223	24,846	19,308	0.9	2.4	1.7	1.7	1.3
Accrued interest on bonds received at date of sale	0	2,747	0	0	3,908	0.0	0.2	0.0	0.0	0.3
Interest on deposits and investments	31,211	21,979	10,472	5,760	3,695	2.3	1.6	0.7	0.4	0.3
<b>TOTAL REVENUES</b>	<b>1,373,937</b>	<b>1,360,445</b>	<b>1,396,574</b>	<b>1,438,669</b>	<b>1,474,452</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:										
Professional fees	6,925	9,204	5,122	7,539	6,365	0.5	0.7	0.4	0.5	0.4
Contracted services	32,169	34,365	29,833	29,297	29,032	2.3	2.5	2.1	2.0	2.0
Other expenditures	5,535	8,929	5,551	5,373	5,322	0.4	0.7	0.4	0.4	0.4
Debt service:										
Principal retirement	1,105,000	1,055,000	1,020,000	985,000	930,000	80.5	77.6	73.1	68.5	63.1
Refunding contribution	0	0	0	0	45,321	0.0	0.0	0.0	0.0	3.1
Interest and fees	432,616	430,541	438,891	471,716	479,802	31.5	31.6	31.4	32.8	32.5
<b>TOTAL EXPENDITURES</b>	<b>1,582,245</b>	<b>1,538,039</b>	<b>1,499,397</b>	<b>1,498,925</b>	<b>1,495,842</b>	<b>115.2</b>	<b>113.1</b>	<b>107.4</b>	<b>104.2</b>	<b>101.5</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ (208,308)</b>	<b>\$ (177,594)</b>	<b>\$ (102,823)</b>	<b>\$ (60,256)</b>	<b>\$ (21,390)</b>	<b>(15.2) %</b>	<b>(13.1) %</b>	<b>(7.4) %</b>	<b>(4.2) %</b>	<b>(1.5) %</b>

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2019

Complete District Mailing Address: Harris-Fort Bend Counties Municipal Utility District No. 1  
c/o Schwartz, Page & Harding, L.L.P.  
1300 Post Oak Boulevard, Suite 1400  
Houston, Texas 77056

District Business Telephone No.: 713-623-4531

Submission date of the most recent District Registration Form: October 16, 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 (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
David Beyer c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Blvd, Suite 1400 Houston, Texas 77056	Elected 5/07/16- 5/02/20	\$ 1,950	\$ 1,264	President
Richard M. Breihan c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Blvd, Suite 1400 Houston, Texas 77056	Elected 5/05/18- 5/07/22	1,650	287	Vice President
Ron Lovett c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Blvd, Suite 1400 Houston, Texas 77056	Appointed 8/16/16- 5/02/20	1,200	184	Secretary
Richard Hughes c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Blvd, Suite 1400 Houston, Texas 77056	Elected 5/05/18- 5/07/22	1,650	287	Assistant Secretary
Joseph R. Longacre c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Blvd, Suite 1400 Houston, Texas 77056	Elected 5/07/16- 5/02/20	1,800	391	Director

See accompanying independent auditor's report.

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2019CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056	9/12/80	\$ 84,948	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	1/14/97	6,925	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	7/12/83	22,451	Bookkeeper
Mary Jarmon 3401 Louisiana, Suite 400 Houston, Texas 77002	10/13/09	0	Investment Officer
Inframark, LLC 2002 Grand Parkway North, Suite 100 Katy, Texas 77449	7/12/83	266,268	Operator
Van De Wiele & Vogler, Inc. 2925 Briarpark, Suite 275 Houston, Texas 77042	11/29/83	53,176	Engineer
Equi-Tax, Inc. P.O. Box 73109 Houston, Texas 77273	7/12/83	20,029	Tax Assessor- Collector
Fort Bend Central Appraisal District 2801 B. F. Terry Rosenberg, Texas 77471	Legislative Action	13,923	Central Appraisal District
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	2,394	Central Appraisal District
Masterson Advisors LLC 3 Greenway Plaza, Suite 1100 Houston, Texas 77046	Hired 6/19/18	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	9/08/09	10,950 500 Other	Independent Auditor

See accompanying independent auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.



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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN