

OFFICIAL STATEMENT DATED APRIL 28, 2020

Rating: S&P: "AA" (Stable Outlook)/Insured  
Moody's: "A2" (Stable Outlook)/Insured  
Moody's: "Baa1"/Uninsured  
Insurance: AGM  
See: "MUNICIPAL BOND  
RATING AND INSURANCE"

NEW ISSUE – BOOK-ENTRY-ONLY

Delivery of the Bonds is subject to the opinion of Bond Counsel to the District to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**\$3,764,996.90**

**SONTERRA MUNICIPAL UTILITY DISTRICT**

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

**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**Dated Date: June 2, 2020**

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

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

**GENERAL . . .** The bonds described above (the "Bonds") are obligations solely of Sonterra Municipal Utility District (the "District") and are not obligations of the State of Texas (the "State"), Williamson County, the City of Jarrell, Texas (the "City"), Jarrell Independent School District or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. **THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."**

**PAYMENT TERMS . . .** The Bonds will be dated June 2, 2020 (the "Dated Date"). The Bonds will be issued in part as current interest bonds (the "Current Interest Bonds") and in part as Premium Compound Interest Bonds (the "Premium Compound Interest Bonds") (collectively, the "Bonds"). Interest on the Current Interest Bonds will accrue from the date of initial delivery and will be payable on August 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption. Interest on the Premium Compound Interest Bonds will accrete from the date of their initial delivery to the initial purchaser (the "Underwriter") and will be payable only at stated maturity. The Current Interest Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. The Premium Compound Interest Bonds will be issued in denominations of \$5,000 of Maturity Amount, as defined herein, or any integral multiples thereof. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered 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 principal amount or Maturity Amount, as applicable, or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof** (see "THE BONDS – Book-Entry-Only System"). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.

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

Proceeds of the Bonds will be used to (i) currently refund a portion of the District's outstanding debt as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") to achieve a debt service savings and (ii) to pay the costs associated with the issuance of the Bonds.



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

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**CUSIP PREFIX: 83569B**

**MATURITY SCHEDULE**

**See inside cover page**

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**REDEMPTION PROVISIONS . . .** Current Interest Bonds maturing on and after August 15, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. **The Premium Compound Interest Bonds are not subject to redemption prior to stated maturity.** See "THE BONDS – Redemption." Additionally, the Current Interest Term Bonds maturing on August 15, 2036 are subject to mandatory sinking fund redemption. See "THE BONDS – Mandatory Sinking Fund Redemption."

**LEGAL . . .** The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. See "LEGAL MATTERS."

Delivery of the Bonds through DTC is expected on June 2, 2020.

**SAMCO CAPITAL MARKETS**

**MATURITY SCHEDULE**

**\$3,680,000 Current Interest Bonds**

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield<sup>(a)</sup></u>	<u>CUSIP Numbers<sup>(b)</sup></u>
2021	\$ 110,000	4.000%	1.650%	83569BLL6
2022	110,000	4.000%	1.750%	83569BLM4
2023	120,000	4.000%	1.900%	83569BLN2
***	***	***	***	***
2026	370,000	2.000%	2.210%	83569BLR3
2027	380,000	2.000%	2.310%	83569BLS1
2028	375,000	2.000%	2.420%	83569BLT9
2029	380,000	2.250%	2.520%	83569BLU6
2030	395,000	2.250%	2.630%	83569BLV4
2031	395,000	2.500%	2.750%	83569BLW2
2032	405,000	2.500%	2.850%	83569BLX0
2033	405,000	2.750%	2.950%	83569BLY8

**\$235,000 3.000% Current Interest Term Bonds due August 15, 2036 Priced to Yield 3.090%<sup>(a)</sup> – 83569BMB7<sup>(b)</sup>**

**(Interest accrues from the date of initial delivery)**

**\$84,996.90 Premium Compound Interest Bonds**

<u>Original Principal Amount</u>	<u>Maturity (August 15)</u>	<u>Offering Price per \$5,000 Amount Due at Maturity</u>	<u>Initial Yield<sup>(a)</sup></u>	<u>Maturity Amount</u>	<u>CUSIP Numbers<sup>(b)</sup></u>
\$ 26,684.40	2024	\$ 4,574.00	2.130%	\$ 120,000	83569BLP7
58,312.50	2025	4,459.70	2.210%	375,000	83569BLQ5

**(Interest accretes from the date of initial delivery)**

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.
- (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. None of the District, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX C – Specimen Municipal Bond Insurance Policy.” For a discussion of certain risk factors associated with the municipal bond insurance policy, see “BOND INSURANCE RISK FACTORS.”

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

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, records, and engineering and other related reports set forth in the 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 the Financial Advisor, for further information.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this "Official Statement" nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the 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, to the extent that information actually comes to its attention, until delivery of the Bonds to the Underwriter and thereafter only as specified in "OFFICIAL STATEMENT – Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

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

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

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The cover page hereof, this page, the schedule and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## SALE AND DISTRIBUTION OF THE BONDS

**UNDERWRITING** . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof, less an Underwriter's discount of \$36,114.28. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

**PRICES AND MARKETABILITY** . . . The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

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

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

## MUNICIPAL BOND RATING AND INSURANCE

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign a rating of "AA/(Stable)" and Moody's Investors Service, Inc. ("Moody's") is expected to assign a rating of "A2"/(Stable) to the Bonds, as a result of a municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. The Bonds are also rated "Baa1" by Moody's without regard to credit enhancement. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS."

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## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas created by a special act of the 79th Regular Session of the Texas Legislature codified as Chapter 8111, Special District Local Laws Code (the "Act"), effective September 1, 2005, and confirmed pursuant to an election held within the District on November 8, 2005. The District's creation was validated by a declaratory judgment of the 277th Judicial District Court of Williamson County, Texas on December 4, 2006. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 1,300.463 <sup>(a)</sup> acres of land, a portion of which is located within the extraterritorial jurisdiction of the City of Jarrell, Texas (the "City"). See "THE DISTRICT."
<i>Location...</i>	The District is located along the eastern boundary of IH-35 and runs south of FM 487 to north of CR 315 near the City, approximately 10 miles north of the City of Georgetown, Texas. See "AERIAL BOUNDARY MAP."
<i>The Developer...</i>	The developer of land within the District is SonWest Co., a Texas corporation ("SonWest"). RVest L.P., a Texas limited partnership ("RVest"), owns approximately 650 acres within the District and SonWest purchases property within the District from RVest for development. SonWest and RVest have common ownership and are referred to herein, collectively, as the "Developer." See "THE DISTRICT – History and Status of Development" and "THE DEVELOPER."
<i>Homebuilders...</i>	SonWest has currently entered into lot sales contracts with seven homebuilders, including Centex Homes, Starlight (Ashton Woods), LGI Homes, Lennar Homes, KB Homes, Century Homes and D.R. Horton Homes. RVest does not currently have and is not anticipated to have any lot sales contracts with homebuilders. See "THE DISTRICT – Homebuilders."
<i>Status of Development...</i>	<p>Development of land within the District began in December 2005. The District is presently being developed for single-family residential, multi-family residential and commercial uses. The Developer has financed the design and construction of water, sanitary sewer and drainage facilities to serve 3,587 living unit equivalents ("LUEs") in the District (out of a total of 5,787 LUEs expected to be developed within the District). Construction of homes in the District began in February 2006, and, as of January 1, 2020, there were approximately 2,213 completed and occupied single-family homes in the District, 16 homes completed and not occupied, 415 single-family homes in various stages of construction, 561 vacant lots available for construction and another 382 lots under development for the construction of single-family homes. The offering price of new homes in the District ranges from approximately \$160,000 to \$250,000. See "THE DISTRICT."</p> <p>In addition to the single family residential development described above, the District contains approximately 80 acres of Interstate Highway 35 frontage that is currently developed or proposed to be developed for commercial/retail use. Existing commercial development includes a McDonald's, a Denny's, a Golden Chick, a Burger King, a Pilot truck stop and convenience store, the Mexicano Grill, Anytime Fitness, CEFCO/FIKES Gas C-Store, and a Subway Sandwich Shop. Other commercial businesses include a Big Red Barn climate-controlled storage facility and three retail strip centers containing assorted local businesses. A small technology firm, EPI, Inc., operates a production facility within the District and Kids Zone operates a child-care facility. The District also contains a Class B apartment complex, Sonterra Apartments, that is comprised of 280 units offering 1, 2 and 3 bedroom townhomes. Williamson County Emergency Services District No. 5 has completed and operates a 24-hour manned EMS station and fire station and Jarrell Independent School District operates an elementary school adjacent to the boundaries of the District as well as a second new elementary school within the District which opened in the Fall of 2019.</p>

(a) On February 20, 2018, the District substituted land as authorized by Sections 54.739-54.747, Texas Water Code, by excluding approximately 250 acres of land then in the District and including approximately 85 acres of land then adjacent to the District. See "TAX DATA – Substitution of Land in the District."

The District contains approximately 300 acres of developable land that have not been provided with water, sanitary sewer and drainage facilities as of January 1, 2020. In the opinion of the District’s engineers, the remaining authorized but unissued bonds will not be sufficient to fund water, sanitary sewer and drainage services to all areas now within the District due to unforeseen construction cost inflation since the District’s creation in 2005. Approximately 27 acres of land in the District is located in drainage easements, rights-of-way and open space, and is considered undevelopable. See “THE DISTRICT – History and Status of Development.”

*Payment Record...* The District has never defaulted on payment of its debt.

#### THE BONDS

*Description...* The Bonds will be dated June 2, 2020 (“Dated Date”). The Bonds will be issued in part as Current Interest Bonds maturing serially on August 15 in the years 2021 through 2023 and 2026 through and including 2033 (the “Current Interest Serial Bonds”), as Current Interest Term Bonds maturing on August 15, 2026 (the “Current Interest Term Bonds” and together with the Current Interest Serial Bonds, the “Current Interest Bonds”), and as Premium Compound Interest Bonds maturing on August 15 in the years 2024 and 2025 (the “Premium Compound Interest Bonds” and collectively with the Current Interest Bonds, the “Bonds”). The Current Interest Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. The Premium Compound Interest Bonds will be issued in denominations of \$5,000 of Maturity Amount or any integral multiples thereof. Interest on the Current Interest Bonds will accrue from the date of initial delivery and is payable August 15, 2020, and each February 15 and August 15 thereafter, until the earlier of maturity or redemption. Interest on the Premium Compound Interest Bonds will accrete from the date of initial delivery and will be payable only at maturity. See “THE BONDS.”

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

*Redemption...* Current Interest Bonds maturing on and after August 15, 2026, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on August 15, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. **The Premium Compound Interest Bonds are not subject to redemption prior to stated maturity.** See “THE BONDS – Redemption.” Additionally, the Current Interest Term Bonds maturing on August 15, 2036 are subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

*Use of Proceeds...* Proceeds of the Bonds will be used to (i) currently refund a portion of the District’s outstanding debt as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) to pay the costs associated with the issuance of the Bonds.

*Authority for Issuance...* The Bonds are issued by the District pursuant to the Bond Order, Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas and a pricing certificate executed by the pricing officer as designated in the Bond Order. See “RISK FACTORS – Future Debt” and “THE BONDS – Authority for Issuance” and “- Issuance of Additional Debt.”

*Source of Payment...* Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Jarrell, Jarrell Independent School District, Williamson County, the State of Texas or any entity other than the District. See “THE BONDS – Source of Payment.”

*Municipal Bond Rating and Insurance...* S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) is expected to assign a rating of “AA/(Stable)” and Moody’s Investors Service, Inc. (“Moody’s”) is expected to assign a rating of “A2”/(Stable) to the Bonds, as a result of a municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. The

Bonds are also rated “Baa1” by Moody’s without regard to credit enhancement. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”

*Bond Counsel and  
Disclosure Counsel...*

McCall, Parkhurst & Horton L.L.P., Austin, Texas. See “MANAGEMENT OF THE DISTRICT,” “TAX MATTERS” and “LEGAL MATTERS.”

*General Counsel...*

Armbrust & Brown, PLLC, Austin, Texas. See “MANAGEMENT OF THE DISTRICT.”

*Underwriter’s Counsel...*

Orrick, Herrington & Sutcliffe LLP, Austin, Texas. See “MANAGEMENT OF THE DISTRICT.”

*Financial Advisor...*

Specialized Public Finance Inc., Austin, Texas. See “MANAGEMENT OF THE DISTRICT.”

### **RISK FACTORS**

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 “RISK FACTORS.”

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**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2016 Certified Taxable Assessed Valuation .....	\$ 212,673,544 <sup>(a)</sup>
2017 Certified Taxable Assessed Valuation .....	\$ 262,360,250 <sup>(a)</sup>
2018 Certified Taxable Assessed Valuation .....	\$ 340,167,189 <sup>(a)</sup>
2019 Certified Taxable Assessed Valuation .....	\$ 417,373,159 <sup>(a)</sup>
Estimated Taxable Assessed Valuation (as of January 1, 2020) .....	\$ 510,400,000 <sup>(b)</sup>

Gross Direct Debt Outstanding .....	\$ 50,902,683 <sup>(c)</sup>
Estimated Overlapping Debt .....	<u>35,303,751 <sup>(d)</sup></u>
Gross Direct and Estimated Overlapping Debt .....	\$ 86,206,434

Ratios of Gross Direct Debt to:

2019 Certified Taxable Assessed Valuation .....	12.20%
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Ratios of Gross Direct Debt and Estimated Overlapping Debt to:

2019 Certified Taxable Assessed Valuation .....	20.65%
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Funds Available:

Debt Service Fund Balance as of January 20, 2020 .....	\$ 5,621,931
General Operating Fund Balance as of January 20, 2020 .....	\$ 2,885,475
Capital Projects Fund Balance as of January 20, 2020 .....	\$ 1,212,439

2019 District Tax Rate .....	\$ 0.9475
2019 Tax Rates of Overlapping Entities:	
Williamson County <sup>(e)</sup> .....	\$ 0.4587
Jarrell Independent School District .....	1.4700
Williamson County ESD #5 .....	<u>0.1000</u>
2019 Total Overlapping Tax Rate .....	\$ 2.0287

Average Annual Debt Service Requirement (2020-2044) .....	\$ 3,062,328 <sup>(c)</sup>
Maximum Annual Debt Service Requirement (2021) .....	\$ 3,502,306 <sup>(c)</sup>

Tax Rates Required to Pay Average Annual Debt Service (2020-2044) at a 95% Collection Rate

Based upon 2019 Certified Taxable Assessed Valuation .....	\$ 0.7724
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Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate

Based upon 2019 Certified Taxable Assessed Valuation .....	\$ 0.8833
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Status of Development within the District as of January 1, 2020:

Approximate Total Completed Homes (occupied) .....	2,213
Homes Completed (unoccupied) .....	16
Homes Under Construction or Owned by Builder .....	415
Developed Lots Available for Construction .....	561
Lots Under Development .....	382
Undeveloped but Developable Acreage .....	300
Estimated Population .....	7,745 <sup>(f)</sup>

(a) As provided by the Williamson Central Appraisal District (the "Appraisal District" or "WCAD"). On February 20, 2018, the District substituted land as authorized by Sections 54.739-54.747, Texas Water Code, by excluding approximately 250 acres of land then in the District and including approximately 85 acres of land then adjacent to the District. According to the County's Chief Appraiser, the 85 acres of land included in the District had a higher taxable value than the 250 acres of land excluded from the District, which resulted in an increase in the District's taxable appraisal value of \$534,647 at the time of the substitution. See "TAX DATA – Substitution of Land in the District."

(b) As provided by WCAD for purposes of illustration.

(c) Includes the Bonds and excludes the Refunded Bonds. Does not include payments to be made pursuant to the Lone Star Contract (as defined herein); such contract payments are treated as an operation and maintenance expense of the District. See "DEBT SERVICE REQUIREMENTS," "THE BONDS – Source of Payment" and "THE SYSTEM – Water Supply and Distribution."

(d) See "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt."

(e) Includes Williamson County's road and bridge fund tax.

(f) Based upon 3.5 persons per occupied single-family residence.



## OFFICIAL STATEMENT

\$3,764,996.90

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
*(A political subdivision of the State of Texas located within Williamson County)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Sonterra Municipal Utility District (the “District”) of its \$3,764,996.90 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas (the “State”), including, Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), and a Pricing Certificate executed by the Pricing Officer as defined in the Bond Order.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, the Developer, and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.

### RISK FACTORS

**GENERAL . . .** The Bonds are obligations solely of the District and are not obligations of the City of Jarrell (the “City”), Jarrell Independent School District, Williamson County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or, in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. The Bonds are also payable from the net revenues of the District’s waterworks and sanitary sewer system. See “THE BONDS – Source of Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “– Bankruptcy Limitation to Registered Owners’ Remedies” below.

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-18 on April 27, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or reopened services (beginning May 1, 2020, and subject to certain conditions and limitations pertaining to such reopened services) or essential daily activities and closes schools to in-person classroom attendance by students through the 2019-2020 school year, unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. Furthermore, the Governor has suspended various statutes of the Texas Open Meetings Act that require government officials and members of the public to be physically present at a specified meeting location. This temporary suspension will allow for telephonic or videoconference meetings of governmental bodies that are accessible to the public in an effort to reduce in-person meetings that assemble large groups of people. In addition, Williamson County, within which the District is located, has issued “stay home” orders for most citizens except when engaged in specific essential business functions. Williamson County’s “stay home” order, which expires on April 30, 2020, does not prohibit homebuilding activity or the construction of utility facilities within the District. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns.

Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Austin area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

**FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . Economic Factors and Interest Rates:** A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots which are currently being marketed and developed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics and prospects of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values; and thus increase the tax rate in the District.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which the Developer is able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, although located approximately 10 miles north of the City of Georgetown, Texas, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies. See "– Regional Economics" below.

Regional Economics: The District is located along the eastern boundary of IH-35 and runs south of FM 487 to north of CR 315 near the City, approximately 10 miles north of the City of Georgetown, Texas. See "– Maximum Impact on District Tax Rates" below.

Competition: The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in Williamson County, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that additional building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

National Economy: Nationally, there have been periods of volatility in new housing construction due to the lack of liquidity and other factors, resulting in a decline in housing market values. The ability of individuals to qualify for a mortgage as well as the general reduction in mortgage availability has also, at times, decreased housing sales. The Austin area, including the District, has experienced reduced levels of home construction and home sales activity in the past. The District cannot predict what impact, if any, another downturn in the national housing and financial markets may have on the Texas market and the District.

The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction and sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Developer under No Obligation to the District: There is no commitment from, or obligation of, the Developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District

cannot predict what effect the future financial condition of either, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPER” and “TAX DATA – Principal Taxpayers.”

For a discussion of wastewater treatment issues, which could have a severe material adverse effect on development within the District, see “– Wastewater Treatment Issues” “THE DISTRICT – Future Development,” and “THE SYSTEM – Wastewater Treatment Matters.”

**MAXIMUM IMPACT ON DISTRICT TAX RATES . . .** Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Taxable Assessed Valuation is \$417,373,159. After issuance of the Bonds, the maximum debt service requirement will be \$3,502,306 (2021), and the average annual debt service requirement will be \$3,062,328 (2020-2044, inclusive). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.8833 and \$0.7724 per \$100 appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively.

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

**DEPENDENCE ON MAJOR TAXPAYERS AND THE DEVELOPER . . .** The ten principal taxpayers represent \$61,892,461 or 14.84% of the District’s 2019 Certified Taxable Assessed Valuation of \$417,373,159. The Developer represents \$15,338,178 or 3.68% of such value. If the Developer and other principal taxpayers were to default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See “Tax Collection Limitations and Foreclosure Remedies” in this section, “TAX DATA – Principal Taxpayers,” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

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

**UNDEVELOPED ACREAGE . . .** All but approximately 300 acres of the developable land within the District has been provided with water, wastewater and storm drainage and detention facilities as of January 1, 2020. In the opinion of the District’s engineers, the remaining authorized but unissued bonds will not be sufficient to fund water, sanitary sewer and drainage services to all areas now within the District due to unforeseen construction cost inflation since the District’s creation in 2005. See “THE DISTRICT – History and Status of Development.”

**DEVELOPMENT AND HOME CONSTRUCTION IN THE DISTRICT . . .** As of January 1, 2020, approximately 561 developed lots within the District were available for home construction. According to the Developer, approximately 382 additional lots are under development and will soon be available as additional lot inventory. Failure of the Developer to develop lots and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax-supported debt of the District previously issued or issued in the future. Future increases in value will result primarily from the construction of homes by builders. See “– Maximum Impact on District Tax Rates” above.

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

bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

**REGISTERED OWNERS' REMEDIES . . .** Remedies available to registered owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Order are limited. Although state law and the Bond Order provide that the registered owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. State law and the Bond Order do not provide for acceleration of maturity of the Bonds. Additionally, the Bond Order does not appoint a trustee to protect the interests of the registered owners or provide for any other additional remedy in the event of a default by the District and, consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the registered owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the registered owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights of the registered owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors' rights generally or by a State statute reasonably required to attain an important public purpose. See "Bankruptcy Limitation to registered owners' Remedies" below.

**BANKRUPTCY LIMITATION TO REGISTERED OWNERS' REMEDIES . . .** The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. 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 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District as discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, entered an order granting relief from the stay or otherwise allowed 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 (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii) desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law, a water, sewer, irrigation and drainage district, 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 State law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with State law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving 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 applicable, the concomitant delay and loss of remedies to the registered owners 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 a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

A district may not be forced into bankruptcy involuntarily.

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties,

imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality Issues.* The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so-called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted an ozone standard with a standard for fine particulates, often referred to as the 8-hour standard because it is based on an 8-hour average and is intended to protect public health against longer exposure. In 2008, the EPA tightened the existing eight-hour ozone standard from 0.08 ppm to 0.075 ppm. The Austin area, consisting of Williamson, Hays, Travis, Bastrop, and Caldwell Counties (the "Austin Area"), was not designated "nonattainment" for any NAAQS by the EPA in 2012; however, the Austin Area has been just below the 2008 eight-hour ozone standard.

On November 26, 2014, the EPA announced a new proposed ozone NAAQS range of between 65-70 ppb. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

On October 1, 2015, the EPA adopted new NAAQS for ground level ozone of 70 ppb. On November 6, 2017, the EPA issued final designations for the 2015 Ozone NAAQS for most areas of the United States and found that the Austin Area met the standards and thus designated the Austin Area "attainment/unclassified."

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

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

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

Pursuant to the Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, potable (drinking) water provided by a Utility District to more than twenty-five (25) people or fifteen (15) service connections is subject to extensive federal and state regulation as a public water supply system, which includes, among other requirements, frequent sampling and analyses. Utility District's 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. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment

effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies.

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

**DROUGHT CONDITIONS . . .** Central Texas, like other areas of the State, has experienced drought conditions from time to time. The District has adopted a drought contingency plan and has implemented water use restrictions applicable to residents and property owners in the District as needed. The District currently has a water supply sufficient to service the residents of the District; however, water use restrictions have been imposed from time to time and, based on future drought conditions, additional water use restrictions may be reimposed. Water usage and rates could be impacted as a result of these restrictions. The District's engineer has indicated that the District's existing water production capacity is sufficient to serve (i) up to 3,000 single-family equivalent connections based on current booster pump capacity; (ii) up to 3,010 single-family equivalent connections based on water supplied from the four wells that currently serve the District; and (iii) up to 6,050 single-family equivalent connections based on the current combined elevated and ground storage capacity. Service to development that is in excess of 3,000 single-family equivalent connections will require additional water supply and booster pump capacity. See "THE SYSTEM – Water Supply and Distribution."

**STORM WATER . . .** Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and recently proposed two general permits for stormwater discharges associated with construction activities and municipal separate storm sewer systems. The District may potentially be subject to stormwater discharge permitting requirements under each of these general permitting programs. Moreover, the District may be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans and in connection with the installation or performance of best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

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

**MARKETABILITY OF THE BONDS . . .** The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

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

**STRATEGIC PARTNERSHIP AGREEMENT . . .** The District and the City entered into a strategic partnership agreement dated June 23, 2009 (the "Original SPA") as permitted by Section 43.0751, Texas Local Government Code. The Original SPA between the District and the City allowed the City to annex portions of the commercial property in the District for certain limited purposes and to levy and collect sales taxes on certain commercial retail sales in the limited purpose annexed area. The Original SPA also provided that the City would remit to the District 20% of the City's sales tax revenues collected on the limited purpose annexed area and the area within both the District boundaries and the city limits of the City, except for sales taxes collected from the existing McDonald's restaurant.

In July 2014, the District and the City entered into Amendment No. 1 to the SPA (“Amendment 1”). Pursuant to Amendment 1:

- 1) The City de-annexed the portion of the District then located within the City’s full purpose city limits (the “De-Annexed Area”).
- 2) The City annexed for limited purposes certain land within the District.
- 3) The District relinquished its rights to any portion of the City’s sales tax revenues.
- 4) The District agreed to indemnify the City against any claims for a refund of City 2014 property taxes on any lands within the De-Annexed Area.
- 5) The District agreed to cooperate with the City to enable the City to more efficiently provide wastewater service to approximately 100 homeowners in the City limits adjacent to the District by:
  - a. Constructing, at the District’s expense, following the City’s request and approval of plans, a wastewater lift station and force main to be operated by the District to receive the City’s wastewater flows from the area of the 100 homeowners;
  - b. Not charging the City a fee for transporting the City’s wastewater flows through the District’s wastewater lines for a period of 25 years after commencement of such service; and
- 6) The District agreed to pay the City, beginning January 31, 2015 and continuing for ten years thereafter, the sum of \$12,500 per year to compensate the City for lost tax revenues.

The District expects to receive payments in lieu of taxes from certain property owners in the De-Annexed Area to recoup a portion of the payments to be made by the District under item 6 above.

In February 2017, the District and the City entered into a further amendment to the SPA that, among other things, clarified the completion due date for the facilities described in 5.a. above.

The City is not authorized to levy property taxes in the limited purpose annexed area. The Original SPA, as amended, is for a term of 30 years ending June 23, 2039. The Original SPA, as amended, provides that that City will not annex any additional land in the District during the term of the Original SPA, as amended.

**WASTEWATER TREATMENT ISSUES . . .** The District and the City have entered into an “Agreement for Wholesale Wastewater Service (Sonterra MUD)” dated effective as of December 23, 2008 (as amended, the “Wastewater Contract”) under which the District receives wholesale wastewater treatment services from the City. As discussed more fully herein, the City has experienced engineering and operations issues and permit violations, along with general design and construction delays in completing expansions to the City’s Donahoe Creek WWTP. The TCEQ issued several Notices of Violation to the City in regards to hydraulic capacity and water quality concerns; although, according to the City, enforcement action by TCEQ was not pursued. Although no assurances can be given that additional Notices of Violation will not be issued by TCEQ, or that enforcement action will not be taken by TCEQ, the City has represented that it has adequately addressed such issues and violations. For a more complete discussion of the wastewater treatment issues, see “THE DISTRICT – Future Development,” and THE SYSTEM – Wastewater Treatment Matters.”

Additionally, development within the District and the City has exceeded original expectations. Currently anticipated development within the District could exceed the City’s currently available wastewater treatment capacity. Although the City, the Developer and the District have been working to remedy wastewater capacity issues, the District can make no representation or provide any assurances that the City’s wastewater treatment capacity expansions will be sufficient to accommodate currently anticipated future development. If the City’s wastewater treatment capacity is unable to accommodate currently anticipated development within the District, it could have an adverse effect on growth within the District and future development within the District could be delayed. For a more complete discussion of the wastewater treatment issues, see “THE DISTRICT – Future Development,” and THE SYSTEM – Wastewater Treatment Matters.”

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

**OVERLAPPING AND COMBINED TAX RATES . . .** The overlapping tax rate for the District reflects a composite overlapping tax rate, including the District’s debt service and maintenance taxes, of \$2.9762 per \$100 of assessed valuation. A maximum District debt service tax rate of \$0.8833 per \$100 of assessed valuation (95% collection rate) would be required if no further growth were to occur within the District. See “DEBT SERVICE REQUIREMENTS – Overlapping Taxes.” However, the tax rate that may be

required to service debt on any bonds issued by the District is subject to numerous uncertainties such as the growth of taxable values within the boundaries of the District, the amount of direct Unlimited Tax and Revenue Bonds issued by the District, regulatory approvals, construction costs and interest rates. There can be no assurance that composite tax rates imposed by overlapping jurisdictions on property within the District will be competitive with the tax rates of competing projects in the Austin metropolitan area. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values within the District and the investment quality or security of the Bonds could be adversely affected.

The current TCEQ rules regarding the feasibility of a bond issue for a utility district in Williamson County limit the projected combined total tax rate of entities levying a tax for water, wastewater and drainage to \$1.20. The projections for the District are consistent with the rules of the TCEQ. If the total combined tax rate of the District should ever exceed \$1.20, the District could be prohibited under rules of the TCEQ from selling additional bonds.

The District may issue additional debt which may change the projected and actual tax rates in the future, which changes may adversely affect future growth and which could affect the ability of the District to issue debt in the future.

**EFFECTS OF MASTER PLANNED COMMUNITY/REGULATORY CONSTRAINTS . . .** The Developer has represented that it intends to develop its property and sell developed lots to homebuilders and other users. See “THE DISTRICT” and “THE DEVELOPER.” However, the Developer has no legal obligation to the District to carry out its current plans or any other plans of development within the District. Furthermore, there is no restriction on the Developer or other landowners selling their land. The District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developer. See “– Factors Affecting Taxable Values and Tax Payments” above.

Neither the Developer nor its subsidiaries or affiliates, if any, are obligated to pay principal of and interest on the Bonds. See “THE DEVELOPER.” Furthermore, the Developer has no binding commitment to the District to carry out any plan of development in the District, and the furnishing of information related to proposed development by a developer should not be interpreted as such a commitment.

**DEMAND FOR AND FLUCTUATION OF ASSESSED VALUATION OF HOUSING PRODUCTS . . .** As reflected in “THE DISTRICT – Homebuilders” herein, the housing product completed and currently planned for portions of the District consists of single-family homes with anticipated prices ranging from \$160,000 to \$250,000.

**FUTURE DEBT . . . *District Debt:*** As of January 1, 2020, all but 300 acres of the developable 1,273 acres of land within the District have been developed with utility facilities by the Developer. According to the District’s Engineer, approximately \$4.56 million advanced by the Developer to develop water, sewer and drainage facilities and to pay certain District operating costs will remain reimbursable and owing after the issuance of the Bonds.

The District has reserved in the Bond Order the right to issue the remaining \$16,265,000 of authorized but unissued Unlimited Tax and Revenue Bonds authorized for water, wastewater and drainage purposes and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining Unlimited Tax and Revenue Bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District’s engineer, the remaining authorization will not be sufficient to complete the development in the District due to unforeseen construction costs inflation since the District’s creation in 2005. See “THE BONDS – Issuance of Additional Debt” and “THE SYSTEM.” In addition, voters in the District could authorize additional Unlimited Tax and Revenue Bonds in the future and the Board has preliminarily considered calling a bond election for such purpose in the future.

The District anticipates that it may issue the full principal amount of unissued bonds authorized for water, wastewater and drainage purposes in installments over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate). The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

**NO REQUIREMENT TO BUILD ON DEVELOPED LOTS . . .** There is currently no requirement that individuals or other purchasers of developed lots within the District commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

**THE EFFECT OF THE FINANCIAL INSTITUTIONS ACT OF 1989 ON TAX COLLECTIONS OF THE DISTRICT . . .** The “Financial Institutions Reform, Recovery and Enforcement Act of 1989” (“FIRREA”), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.



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

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, and 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.

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

## **PLAN OF FINANCING**

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

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

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

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

**SOURCES OF FUNDS:**

Par Amount of Bonds	\$ 3,764,996.90
Net Original Issue Premium	294,231.60
Transfer from Prior Issue Debt Service Funds	<u>70,000.00</u>
Total Sources of Funds	<u>\$ 4,129,228.50</u>

**USES OF FUNDS:**

Escrow Deposit	\$ 3,857,292.50
Costs of Issuance (including bond insurance)	234,794.22
Underwriter's Discount	36,114.28
Deposit to Debt Service Fund	<u>1,027.50</u>
Total Uses of Funds	<u>\$ 4,129,228.50</u>

**THE BONDS**

**DESCRIPTION . . .** The Bonds are dated June 2, 2020, and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. The Bonds will be issued in part as current interest bonds (the “Current Interest Bonds”) and in part as premium compound interest bonds (the “Premium Compound Interest Bonds”). Interest on the Current Interest Bonds will accrue from the date of initial delivery and will be payable on August 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption. Interest on the Premium Compound Interest Bonds will accrete from the date of their initial delivery, will be compounded on each February 15 and August 15, commencing August 15, 2020, and will be payable only at stated maturity. The Current Interest Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof. The Premium Compound Interest Bonds will be issued in denominations of \$5,000 of “Maturity Amount” or any integral multiples thereof. The “Maturity Amount” means the sum of the original principal amount of such Bond plus premium, if any, paid therefor plus interest accreted thereon to stated maturity. The sum of the principal of, plus initial premium on the Premium Compound Interest Bonds plus interest accreted thereon per \$5,000 Maturity Amount (the “Accreted Value”) as of each February 15 and August 15 is computed on the basis of the initial offering price to the public as adjusted by semiannual compounding at the initial offering yields set forth on the inside cover page of this Official Statement. For any day other than a February 15 or August 15, the “Accreted Value” of a Capital Appreciation Bond is to be determined by a straight line interpolation between the Accreted Values for the applicable semiannual compounding dates (based on 30-day months). A table of Accreted Values based on such initial offering prices is set forth herein under “SCHEDULE II – Schedule of Accreted Value of Premium Compound Interest Bonds.” Such Accreted Value table is provided for informational purposes only and may not reflect prices for the Premium Compound Interest Bonds in the secondary market.

Interest on the Current Interest Bonds shall be paid by check dated as of the interest payment date, and sent first class United States mail, postage prepaid, by the Paying Agent/Registrar to each owner, as shown in the Bond registration books of the Paying Agent/Registrar (the “Registrar”) at the close of business on the Record Date (as defined herein), at the address of each such owner as such appears in the Register or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The principal of each Current Interest Bond and the Maturity Amount of each Premium Compound Interest Bond shall be paid to the owner thereof at Maturity upon presentation and surrender of such Bond at the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment is not a Business Day, the date for such payment shall be the next succeeding Business Day, and payment on such date shall for all purposes be deemed to have been made on the due date

**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”), New York, New York, while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the

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

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

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

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

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

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

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

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

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

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**SOURCE OF PAYMENT . . .** While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. See “THE SYSTEM – Water Supply and Distribution” and “DEBT SERVICE REQUIREMENTS.” In the Bond Order, the District covenants that said debt service taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

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

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

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

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

**ESCROW FUND . . .** The Refunded Bonds and the interest thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See “PLAN OF FINANCING.”

**YIELD ON PREMIUM COMPOUND INTEREST BONDS . . .** The approximate yields of the Premium Compound Interest Bonds as set forth on the inside cover page of this Official Statement are based upon the initial applicable offering price set forth in this Official Statement. Such offering prices include the principal amount of such Premium Compound Interest Bonds plus premium, if any, equal to the amount by which such offering price exceeds the principal amount of such Premium Compound Interest Bonds. The yield on the Premium Compound Interest Bonds to a particular purchaser may differ depending upon the price paid by the purchaser. For various reasons, securities that do not pay interest periodically, such as the Premium Compound Interest Bonds, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

**REDEMPTION . . .** The District reserves the right, at its option, to redeem the Current Interest Bonds maturing on and after August 15, 2026, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 2025, or any date thereafter, at a price of par on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Current Interest Bonds are redeemed at any time, the maturities of the Current Interest Bonds to be redeemed will be selected by the District. If less than all the Current Interest Bonds of a certain maturity are to be redeemed, the particular Current Interest Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Current Interest Bonds are in book-entry-only form). **The Premium Compound Interest Bonds are not subject to redemption prior to stated maturity.**

**MANDATORY SINKING FUND REDEMPTION . . .** The Current Interest Bonds maturing on August 15, 2036 (the “Current Interest Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Redemption Date”), on August 15 in each of the years and in the principal amounts set forth in the following schedule (less the principal amount of such Current Interest Term Bonds as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided above):

**Current Interest Term Bonds Due August 15, 2036**

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2034	\$ 75,000
August 15, 2035	80,000
August 15, 2036*	80,000

\*Stated Maturity

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

**NOTICE OF REDEMPTION** . . . Not less than 30 days prior to a redemption date for the Current Interest Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Current Interest Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CURRENT INTEREST BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CURRENT INTEREST CURRENT INTEREST BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Current Interest Bonds will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Current Interest Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Current Interest Bond called for redemption or any other action premised or any such notice.

Redemption of portions of the Current Interest Bonds by the District will reduce the outstanding principal amount of such Current Interest Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Current Interest Bond held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Current Interest Bond from the beneficial owners. Any such selection of Current Interest Bonds to be redeemed will not be governed by the Bond Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Current Interest Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Current Interest Bonds for redemption. See "Book-Entry-Only System" herein.

With respect to any optional redemption of the Current Interest Bonds unless certain prerequisites to such redemption required by the Bond Order has been met and money sufficient to pay the principal of and interest on the Current Interest Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Current Interest Bonds and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Current Interest Bonds have not been redeemed.

**AUTHORITY FOR ISSUANCE** . . . At a bond election held within the District on November 8, 2005, the voters of the District authorized the issuance of \$71,480,000 principal amount of new money Unlimited Tax and Revenue Bonds for water, wastewater and drainage purposes. See "Issuance of Additional Debt" below and "THE DISTRICT – Judicial Proceedings."

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State and a pricing certificate executed by the pricing officer as designated in the Bond Order, authorized by the Board of Directors on March 24, 2020.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of or the sufficiency of the security for the Bonds as an investment or

upon any information contained in this Official Statement.

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

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

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

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

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

**LOST, STOLEN OR DESTROYED BONDS . . .** In the event the book-entry-only system should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the registered owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

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

**ISSUANCE OF ADDITIONAL DEBT . . .** With the approval of the TCEQ, the District may issue additional ad valorem tax bonds and long-term revenue bonds and notes to finance improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of \$71,480,000 principal amount of unlimited tax and revenue new money bonds for the purpose of constructing and/or acquiring a waterworks, sanitary sewer and storm sewer system. In addition, voters in the District could authorize additional amounts for such purpose in the future. The District has \$16,265,000 of Unlimited Tax and Revenue Bonds for waterworks, sanitary sewer and storm sewer facilities authorized but unissued.

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

According to the District's Engineer and the Developer, following the issuance of the Bonds, the District will remain obligated to reimburse the Developer approximately \$4.56 million for water, sewer and drainage facilities serving the existing development within the District. The District expects to submit bond applications to the TCEQ for the sale of additional bonds to satisfy its obligation to pay the Developer for such facilities. The District intends to issue such bonds in approximately annual installments, subject to timely TCEQ approval.

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

**PARKS . . .** The District is authorized by statute to develop parks and recreational facilities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park projects and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. See “THE DISTRICT – Judicial Proceedings” for information concerning a proposition approved by voters in the District at an election on November 8, 2005, authorizing the issuance of bonds for recreational facilities, which was declared invalid pursuant to the declaratory judgment described therein. The Board has preliminarily considered the calling of a park bond election.

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

**ANNEXATION . . .** The District is located partially in the City’s limited-purpose annexation area, partially within the extraterritorial jurisdiction of the City, and partially outside the extraterritorial jurisdiction and/or incorporated limits of any municipality. State law provides that a city may not annex land that is located in a district unless it annexes the entire part of the district that is located outside of the City’s boundaries; however, there is an exception for a district is located in the extraterritorial jurisdiction of more than one city.

The Original SPA, which has a term ending June 23, 2039, includes a section entitled, “No Full Purpose Annexation During Term of Agreement,” that provides that, after the term of the Original SPA, the City may either enter into a new strategic partnership agreement with the District, annex the District for full purposes, or allow the Original SPA to expire. The Original SPA also provides that any attempt by the City to annex the District for full purposes during the term of the Original SPA will be a material breach of the Original SPA. If the City elected to annex the entire District, the City would assume all of the District’s assets and outstanding obligations, including the Bonds, and the District would be dissolved. Except as provided in the Original SPA, the District has no control over the City’s annexation plans and can make no prediction regarding the likelihood or timing of annexation of the District, nor the City’s ability to make debt service payments on the Bonds if it were to annex the District.

**REMEDIES IN EVENT OF DEFAULT . . .** Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District’s officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. Certain traditional legal remedies also may not be available.

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

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

**DEFEASANCE . . . General . . .** The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a “Defeased Obligation”) within the meaning of the Bond Order, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the District to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of

redemption or the establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied as provided in the Bond Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given or the establishment of irrevocable provisions for the giving of such notice, in accordance with the Bond Order. Any money so deposited with the Paying Agent/Registrar or an eligible trust company or commercial bank may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Bond Order, and all income from such Defeasance Securities received by the Paying Agent/Registrar or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Bond Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligations shall have become due and payable, the Paying Agent/Registrar shall perform the services of Registrar for such Defeased Obligations the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Bond Order shall be made without the consent of the registered owner of each Bond affected thereby.

*Retention of Rights.* To the extent that, upon the defeasance of any Defeased Obligation to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Obligation for redemption in accordance with the provisions of the Bond Order, the District may call such Defeased Obligation for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligation as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

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

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America.

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## BOND INSURANCE

**BOND INSURANCE POLICY** . . . Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

**ASSURED GUARANTY MUNICIPAL CORP.** . . . AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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

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

On November 7, 2019, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

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

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

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

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

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

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

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

### **BOND INSURANCE RISK FACTORS**

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

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

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

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

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

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## THE DISTRICT

**GENERAL . . .** The District is a political subdivision of the State of Texas created by a special act of the 79th Regular Session of the Texas Legislature, Chapter 8111, Subchapter F, Title 6, Special District Local Laws Code, as amended (the “Act”), effective September 1, 2005) and confirmed pursuant to an election held within the District on November 8, 2005. The District’s creation was validated by declaratory judgment of the 277th Judicial District Court of Williamson County, Texas on December 4, 2006. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended.

The District is located along the eastern boundary of IH-35 and runs south of FM 487 to north of CR 315 near the City, approximately 10 miles north of the City of Georgetown, Texas. See “AERIAL BOUNDARY MAP.” The District consists of approximately 1,300.463 acres of land, a portion of which is located within the extraterritorial jurisdiction of the City.

In 2018, the District substituted land as authorized by Section 54.739 through 54.747, Texas Water Code, by excluding approximately 250 acres of land formerly within the District and including approximately 85 acres of land formerly adjacent to the District. In compliance with State law and covenants on the District’s outstanding bonds, the approximate value of the 85 acres of land added to the District was determined to be equal or more than the approximate value of the 250 acres of land excluded from the District. See “TAX DATA – Substitution of Land in the District.”

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

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City which, among other things, limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities; the payment of organization and operation expenses and interest during construction; the provision of parks and recreational facilities; and the provision of other facilities and improvements benefiting the land within the District; limit the interest rate on such bonds to rates that do not exceed 2% above the weekly tax exempt Bond Buyer Index for 25 year bonds; limit the term of the bonds to 25 years and provide other terms for such bonds; require TCEQ approval of construction plans; and permit connections only to lots described in plats which have been approved by Williamson County and recorded in the real property records. Construction and operation of the District’s system is also subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM – Regulation.”

According to the Developer, the homebuilders within the District are currently constructing homes in the District which range in size from approximately 1,000 to 2,800 square feet of living area and range in sales price from approximately \$160,000 to \$250,000. See “– Homebuilders” below.

In addition to single-family, multi-family and commercial development, the District includes a community center with a swimming pool that is leased to and operated by the District and several small parks.

**JUDICIAL PROCEEDINGS . . .** On December 4, 2006, the District Court for the 277th Judicial District in Williamson County, Texas, issued a declaratory judgment pursuant to Chapter 1205, Texas Government Code, as amended (the “Confirmation Judgment”), which upheld the legality and validity of the Act and confirmed the legality and validity of the District’s creation. The judgment also confirmed (i) the legality and validity of the election proceedings for the November 8, 2005 election in the District that confirmed the District’s creation, provided for the election of the District’s initial board of directors, authorized the issuance of up to \$71,480,000 of Unlimited Tax and Revenue Bonds for water, sewer and drainage purposes, and authorized the levy and collection of an operation and maintenance tax; and (ii) the legality and validity of an order adopted by the District on November 2, 2006 rescinding certain actions taken by the District to effect the division of the District into separate municipal utility districts.

**LITIGATION . . .** The District is not party to any lawsuits at the present time.

**HISTORY AND STATUS OF DEVELOPMENT . . .** Development of land within the District began in December 2005. The District is presently being developed for single-family residential, multi-family residential and commercial uses. Sonterra Development LLC (the “Prior Developer”) and the Developer have financed the design and construction of water, sanitary sewer and drainage facilities to serve approximately 3,587 living unit equivalents (“LUEs”) in the District (out of a total of 5,787 LUEs expected to be developed within the District) and construction of underground utilities and street paving is complete in these portions of the District. Construction of homes in the District began in February 2006, and, as of January 1, 2020, there were approximately 2,213 completed and occupied single-family homes in the District, 16 homes completed and not occupied, 415 single-family homes in various stages of construction, and 561 vacant lots available for construction of single-family homes. New homes in the District range in offering prices from approximately \$160,000 to \$250,000.

In addition to the residential development described above, the District contains approximately 80 acres of Interstate Highway 35 frontage that is currently developed or proposed to be developed for commercial/retail use. Existing commercial businesses include McDonald’s, a Denny’s, a Golden Chick, a Burger King, a Pilot truck stop and convenience store, the Mexicano Grill, Anytime Fitness, CEFCO/FIKES Gas C-Store, and a Subway Sandwich Shop. Other commercial businesses include a Big Red

Barn climate-controlled storage facility and three retail strip centers containing assorted local businesses. A small technology firm, EPI, Inc., operates a production facility within the District and Kids Zone operates a child-care facility. The District also contains a Class B apartment complex, Sonterra Apartments, that is comprised of 280 units offering 1, 2 and 3 bedroom townhomes. Williamson County Emergency Services District No. 5 has completed and operates a 24-hour manned EMS station and fire station and Jarrell Independent School District operates an elementary school adjacent to the boundaries of the District as well as a second new elementary school opened within the District in the Fall of 2019.

The District contains approximately 300 acres of developable land that have not been provided with water, sanitary sewer and drainage facilities as of January 1, 2020. In the opinion of the District’s engineers, the remaining authorized but unissued bonds will not be sufficient to fund water, sanitary sewer and drainage improvements to serve all areas now within the District due to unforeseen construction cost inflation since the District’s creation in 2005. Approximately 27 acres of land in the District is located in drainage easements, rights-of-way and open space, and is considered undevelopable.

The chart below reflects the status of development as of January 1, 2020:

	Net Acreage <sup>(a)</sup>	Platted Lots	Equivalent Connections		
			Completed Homes	Homes Under Construction	Vacant/ Projected
<b>A. Single-Family Acreage Developed or Being Developed with Utility Facilities:</b>					
Completed Sections:	803.338	3,205	2,229	415	561
Sections Under Construction:	56.210	382	-	-	382
Developed with Utilities or Under Construction:	859.548	3,587	2,229	415	943
<b>B. Other Acreage Developed with Utility Facilities:</b>					
Commercial and Multi-Family:	113.530	77	350	-	374
Out of District Service (school, church and fire station):	-	-	37	-	-
	113.530	77	387	-	374
<b>Total Developed or Being Developed:</b>	<b>973.078</b>	<b>3,664</b>	<b>2,616</b>	<b>415</b>	<b>1,317</b>
<b>C. Total Remaining Undeveloped/Developable Acreage:</b>	300.385				
<b>D. Total Developable Acreage:</b>	1,273.463				
<b>E. Undevelopable Acreage:</b>	27.000				
<b>Total</b>	<b>1,300.463</b>				

(a) On February 20, 2018, the District substituted land by excluding approximately 250 acres of land then in the District and annexing approximately 85 acres of land adjacent to the District. See “TAX DATA – Substitution of Land in the District.”

**STATUS OF DEVELOPMENT . . .** As of January 1, 2020, water, wastewater, and drainage improvements have been completed to sections expected to serve approximately 3,587 of an ultimate 5,787 equivalent single-family connections, including 382 single-family lots currently under development. The District area also contains a completed HOA community center (including a swimming pool), and several small parks internal to each subdivision. Development status as of January 1, 2020 is further outlined below:

Total Completed Homes (occupied)	2,213
Homes Completed (unoccupied)	16
Homes Under Construction or Owned by Builder	415
Developed Lots Available for Construction	561
Lots Under Development	382
Undeveloped but Developable Acreage	300

**FUTURE DEVELOPMENT . . .** The District is being developed primarily as a single-family residential community, although approximately 80 acres have been developed for commercial use. While the Developer anticipates future development of the remaining undeveloped acreage in the District as business conditions permit, there can be no assurances if and when such development will occur or when any previously developed lots will be used for home construction.

Additionally, the pace of development within the District has exceeded original expectations. Currently anticipated development within the District could exceed the City’s wastewater treatment capacity. Although the City, the Developer and the District have been working to remedy wastewater capacity issues, the District can make no representation or provide any assurances that the City’s wastewater treatment capacity expansions will be sufficient to accommodate currently anticipated future development. If the City’s wastewater treatment capacity is unable to accommodate currently anticipated development within the District, future development within the District could be delayed.

The District anticipates issuing additional bonds to reimburse the Developer for costs associated with the development and construction of District facilities to accomplish full build-out of the District. The District Engineer has stated that, under current development plans, the remaining unissued new money bonds authorized for water, wastewater and drainage facilities (\$16,265,000) will not be sufficient to finance the construction of water, wastewater and storm drainage facilities for full development of the District due to unforeseen construction cost inflation since the District's creation in 2005. The remaining bonds are sufficient to reimburse the Developer for funds previously advanced to complete such facilities. Additionally, the Board has preliminarily considered calling bond elections to authorize the issuance of additional unlimited tax and revenue bonds and park bonds. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments" and "– Wastewater Treatment Issues," "THE BONDS – Issuance of Additional Debt" and "THE SYSTEM."

#### **THE DEVELOPER**

**GENERAL . . .** The original developer in the District was Sonterra Development, LLC (the "Prior Developer"). On September 11, 2012, the Prior Developer sold all of its property in the District to SonWest Co., a Texas corporation ("SonWest") and RVest L.P., a Texas limited partnership ("RVest"). In connection with the sale, all of the Prior Developer's rights to reimbursements from the District that had accrued as of September 11, 2012 were sold to RVest and all of the Prior Developer's rights to reimbursements occurring after September 11, 2012 were sold to SonWest. SonWest purchases property within the District from RVest for development. SonWest and RVest (collectively, the "Developer") have common ownership and were both formed in 2012 for the express purposes of acquiring and developing land within the District. See "TAX DATA – Principal Taxpayers."

**ACQUISITION FINANCING . . .** RVest acquired the land within the District from the Prior Developer, Theron Vaughan, and Ellie Vaughan with seller financing secured by a deed of trust on such land in the amount of \$5,880,000 evidenced by a note dated September 11, 2017 (the "Note"). According to the Developer, as of February 1, 2020, approximately \$4,780,000 remained outstanding on the Note. Payment on the Note is due quarterly and the final maturity date of the Note is September 11, 2028. According to the Developer, RVest is in compliance with all the terms of the Note.

**DEVELOPMENT FINANCING . . .** According to the Developer RVest has one outstanding 15-year development loan (the "Loan") from First State Bank totaling \$700,000 and maturing in 2032, of which \$600,000 was outstanding as of February 1, 2020.

The Developer expects to repay the Note and the Loan with the proceeds of lots sales and reimbursements received from proceeds of the District's bonds.

According to the Developer, it is current on and in compliance with the terms of its acquisition and development.

**LITIGATION . . .** See "THE DISTRICT – Litigation." The District is not involved in any litigation at the present time.

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## MANAGEMENT OF THE DISTRICT

**BOARD OF DIRECTORS** . . . The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held on the first Saturday of May in even numbered years only. All of the Board members either reside within the District or own a small parcel of land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Faske	President	May 2024
Tom Slowbe	Vice President	May 2024
Darrell Goldman	Secretary	May 2022
Menashe “Manny” Avika	Assistant Secretary	May 2024
Camy Lenn Reynolds	Assistant Secretary	May 2022

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

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

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

Management: The District has contracted with Vecindario Management, LLC, to serve as its General Manager and has contracted with Crossroads Utility Services for utility operations services.

Engineers: The District’s engineer is Jones-Heroy & Associates, Inc.

Bookkeeper: The District has contracted with Municipal Accounts & Consulting L.L.C. to serve as bookkeeper to the District.

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

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

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

Bond Counsel/Disclosure Counsel: McCall, Parkhurst & Horton L.L.P. has been engaged as Bond Counsel and Disclosure Counsel in connection with the issuance of the Bonds. The firm’s fees for services in these capacities are contingent upon the sale and delivery of the Bonds.

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

## THE SYSTEM

**WATER SUPPLY AND DISTRIBUTION** . . . The District’s water system is currently supplied by groundwater from four Edwards Aquifer water supply wells and one Trinity Aquifer water supply well. Water Well Nos. 2 (370 gpm) and 3 (70 gpm) currently provide water to Water Treatment Plant No. 2 (WTP No. 2), and Water Well Nos. 1 (140 gpm), 4 (475 gpm), and Trinity Well No. 5 (500 gpm) provide water to Water Treatment Plant No. 1 (WTP No. 1). In February 2017, during the completion phase of Edwards Aquifer Well No. 4, elevated fluoride levels were discovered in the District’s existing Well No. 1 and the proposed Well No. 4. The District subsequently received a Notice of Violation from TCEQ in May 2017 for fluoride levels that exceeded the public drinking water Maximum Contaminant Level (MCL) during routine sampling conducted in 2016 and early 2017. Due to elevated fluoride levels, the existing Well No. 1 is currently utilized as an emergency source only. Trinity Well No. 5 serves as a blending source with Well No. 4 to reduce the fluoride levels below the MCL, for a combined water supply capacity of 975 gpm at Water Treatment Plant No. 1. As of August 2019, the Edwards Well No. 2 was taken out of service for maintenance. The well is anticipated to be placed back into service on or before May 2020 and may be necessary to meet the peak summer demands of 2020.

WTP No. 1 includes chlorination facilities for Well Nos. 1, 4, and 5 and a 600,000 gallon elevated storage tank. WTP No. 1 is designed to accommodate future facilities necessary to serve the full build out of the District, including the delivery of additional

surface water supplies which are currently under construction, a 500,000 gallon ground storage tank, a high service pump station, and expanded chlorination facilities. WTP No. 2 includes chlorination facilities for Well Nos. 2 and 3, a 350,000 gallon ground storage tank, three booster pumps, and a 25,000 gallon pressure tank. WTP No. 2 is also designed to accommodate future facilities including the delivery of additional water supplies, an additional 400,000 gallon elevated storage tank, and expansion of the booster pump station and chlorination facilities.

Water is obtained from the wells that supply the District pursuant to a Lease of Right to Pump and Use Groundwater dated June 16, 2005, between LSARGP, LLC (an affiliate of the Prior Developer), as lessor, and the Prior Developer, as lessee, as assigned by Prior Developer to the District by Assignment of Lease of Right to Pump and Use Groundwater dated November 17, 2005, as amended (the "Groundwater Lease"). During the term of the Groundwater Lease (which continues through December 31, 2045), the District is required to purchase water from LSARGP, LLC, based on the amount of water that is pumped during each quarterly period, subject to a minimum take down of 1 million gallons per year, at rates ranging from \$0.61 per thousand gallons (in 2008) to \$1.25 per thousand gallons (in 2041 through 2045). The District accounts for amounts owed under the Groundwater Lease as an operating expense. The Groundwater Lease authorizes the District, with advance written approval of LSARGP, LLC, to select sites and drill wells in an area of approximately 950.5 acres (the "Lease Area"). The Lease Area includes parts of the District and other tracts in the vicinity of the District. The Groundwater Lease authorizes the District to produce up to 2 million gallons per day or 2,241 acre-feet per year of ground water of Lessor's groundwater rights through wells located in the Lease Area. The Groundwater Lease provides for the following minimum payments by the District to LSARGP, LLC:

<u>Lease Year</u>	<u>Rate for Water Pumped Per 1,000 Gallons</u>	<u>Minimum Annual Take Amount in Gallons</u>
2008	\$0.61	1,000,000
2009	\$0.65	2,000,000
2010	\$0.65	3,000,000
2011	\$0.65	3,000,000
2012	\$0.70	4,000,000
2013	\$0.70	4,000,000
2014	\$0.75	5,000,000
2015	\$0.80	5,000,000
2016	\$0.85	5,000,000
2017	\$0.90	5,787,000
2018	\$0.95	5,787,000
2019	\$1.00	5,787,000
2020	\$1.00	8,000,000
2021-25	\$1.00	8,000,000
2026-30	\$1.10	8,000,000
2031-35	\$1.15	10,000,000
2036-40	\$1.20	10,000,000
2041-45	\$1.25	10,000,000

The District's engineer has indicated that the District's existing water production capacity is sufficient to serve (i) up to 3,000 single-family equivalent connections based on current booster pump capacity; (ii) up to 3,010 single-family equivalent connections based on water supplied from the four wells that currently serve the District; and (iii) up to 6,050 single-family equivalent connections based on the current combined elevated and ground storage capacity. Service to development that is in excess of 3,000 single-family equivalent connections will require additional water supply and booster pump capacity.

The District is a participant in a regional effort with neighboring water systems for the delivery of an additional water supply to be provided from a combination of groundwater and surface water sources through the Lone Star Regional Water Authority ("LSRWA"), a regional water authority created in the 2011 session of the Texas legislature. The LSRWA can facilitate financing of the regional water supply efforts by the District and other political subdivisions in northern Williamson and southern Bell Counties. The LSRWA regional water supply project has been financed by the Texas Water Development Board ("TWDB") as part of the FY2015 SWIFT funding through the issuance of six series of debt in the aggregate principal amount of \$29,140,000, the District pledged its gross revenues towards repayment for the District's share (approximately \$15,820,106, or 54.29%) and is currently in the final construction phase with completion expected in the Spring of 2020. The District's share of the regional water supply project is 5.7 MGD, which is sufficient for full build-out of the District. In addition, the District has completed construction of an emergency interconnection with the Jarrell-Schwertner Water Supply Corporation ("JSWSC"). LSRWA issued \$3,165,000 of contract revenue bonds (current outstanding balance: \$2,810,000) on August 6, 2015 to finance the construction of a 600,000 gallon elevated storage tank and water supply well in the District, which construction is complete (the "Lone Star Bonds"). The Lone Star Bonds are payable, both as to principal and interest, solely from and are secured by a first lien on and pledge of payments to be received by LSRWA from the Water System Facilities Installment Sale Contract between the LSRWA and the District dated as of June 1, 2015 (the "Lone Star Contract"). Pursuant to the Lone Star Contract, the gross revenues of the District's waterworks and sanitary sewer system have been pledged to secure the LSRWA Bonds.

The District has been issued a water certificate of convenience and necessity and a sewer certificate of convenience and necessity by the Texas Commission on Environmental Quality. By agreement with the City, a small portion of the District's certificated sewer service area is dually certificated to the District and the City. By agreement with Jarrell-Schwertner Water Supply

Corporation (the “WSC”), a small portion of the District’s water service area is dually certificated to the WSC and the District. In the dually certificated areas, either the District or the dually certificated entity may provide service. The District has agreed that any customers within the dually certificated water service area that receive water service from the WSC will not be required to obtain water service from the District as a condition to receiving sewer service from the District.

The District has constructed internal water transmission and wastewater collection facilities and storm drainage facilities to serve approximately 3,966 of the anticipated ultimate 5,787 equivalent single-family connections within the District.

**WASTEWATER TREATMENT MATTERS . . .** The District and the City have entered into an “Agreement for Wholesale Wastewater Service (Sonterra MUD)” dated effective as of December 23, 2008 (as amended, the “Wastewater Contract”) under which the District receives wholesale wastewater treatment services from the City. The City holds a four million gallon per day (“MGD”) wastewater discharge permit from the TCEQ and has completed the 1.0 MGD of the Donahoe Creek Regional Wastewater Treatment Plant (the “Donahoe Creek WWTP”), located a few miles north and east of the District, which the City operates under that permit. The Wastewater Contract provides the District with the contractual right to up to three, 3.0 MGD of wastewater treatment capacity in the Donoghue Creek WWTP, which, according to the District’s engineer, should be sufficient for the full development of the District. The District’s flows to the Donahoe Creek WWTP are currently approximately 0.60 MGD. Under the Wastewater Contract, the City is responsible for constructing all expansions to the City’s trunk main facilities and the Donahoe Creek WWTP that are necessary to provide service to the District at the levels provided for in the Wastewater Contract. The District is obligated to pay the City a “wastewater treatment access fee,” currently \$1,720 per service unit, for each connection that the District serves through the Donoghue Creek WWTP. The District collects this fee from each new customer at the time of connection to the District’s sewer system. The District is also obligated to pay the City a volumetric rate, per 1,000 gallons, for all wastewater delivered by the District to the Donoghue Creek WWTP. The term of the Wastewater Contract is 30 years.

During the 18-month period from August 2017 through January 2019, the City’s original 0.50 MGD Donahoe Creek WWTP had been operating at a maximum 120% of its rated hydraulic capacity during wet weather periods and a minimum 80% capacity during dry weather periods. The TCEQ has issued several Notices of Violation to the City in regard to the hydraulic capacity and water quality concerns; however, Enforcement Action by TCEQ has not been pursued as of this time. The City began construction of its 1.0 MGD expansion to the Donahoe Creek WWTP in July 2018 and placed the 1.0 MGD phase into operation in February 2020. In addition, the City has taken emergency action to locate and repair an approximately 100,000 gpd groundwater inflow into its 15-inch wastewater interceptor along Donahoe Creek. The City’s February 2019 through January 2020 inflow data at the Donahoe Creek WWTP indicate the groundwater inflow concerns have been remediated.

Additionally, the City’s prior wastewater discharge permit expired May 1, 2019. The City filed its application for permit renewal as required by the TCEQ on April 5, 2019. In connection with the permit renewal, the City requested a minor amendment to its existing permit to allow for expansions from 1 MGD to 2 MGD, and from 2 MGD to 4 MGD (as opposed to the currently permitted expansion phases of 0.50 MGD to 1 MGD, and from 1 MGD to 4 MGD). According to information provided by the District’s Developer and Engineer, the City was able to lawfully operate under its prior permit, pending TCEQ’s approval of the renewal and amendment which was issued February 27, 2020 and expiring February 27, 2025. To assist the City in the permitting renewal and amendment process, the District engaged DCS Engineering, a firm which specialized in wastewater permitting and design.

The above described engineering and operations issues and permit violations, along with general design and construction delays in completing the expansions to the City’s Donahoe Creek WWTP, were raised by the District in a letter to the City dated March 6, 2019. As mentioned above, the District has agreed to assist the City with resolving these issues because they pose the risk of a possible interruption in development and homebuilding within the District. The City, with assistance from the District, has taken action to remedy these issues and violations, including (i) making the emergency repairs to remedy the groundwater inflow concerns described above and (ii) working with DCS Engineering on its permit renewal and amendment. Although the District’s Engineer believes that, with the alleviation of the groundwater inflow concerns and progress toward completion of the WWTP expansion construction efforts, the Donahoe WWTP in its current state is operating within its permitted capacity limitation of 1.0 MGD, the possibility remains that the TCEQ could decide to bring an enforcement action against the City, possibly resulting in the prohibition of any new connections to the City’s wastewater system. Such an enforcement action could have a severe material adverse effect on growth within the District, halting any new development.

Additionally, for a discussion of certain wastewater capacity issues which could have a material adverse effect on growth within the District, see “RISK FACTORS – Wastewater Treatment Issues” and “THE DISTRICT – Future Development.”

**SERVICE TO COOL WATER MUNICIPAL UTILITY DISTRICT AND EASTWOOD MUNICIPAL UTILITY DISTRICT . . .** Effective August 15, 2019, the District entered into an Agreement for the Provision of Retail Water and Wastewater Services with Cool Water Partners, LP (“Cool Water Partners”) and Cool Water Municipal Utility District (“Cool Water MUD”), under which the District agreed to provide 1,600 living unit equivalents (“LUEs”) of retail water and wastewater services to the approximately 312.94 acres of land within Cool Water MUD. As part of the consideration under that agreement, Cool Water Partners and Cool Water MUD agreed, jointly and severally, to make certain contract payments to the District, calculated to pay Cool Water MUD’s prorata share, based on the 1,600 LUEs of service, of the debt service on certain District facilities required to provide service and of the District’s payments under the Lone Star Contract. After Cool Water Partners made the first payment of \$271,926 under the Cool Water Contract, Cool Water Partners requested a change in the payment schedule under the contract and a reduction in number of LUEs of service to 1,560 LUEs. The Board of Directors subsequently approved the requested changes and authorized the preparation of an amended and restated contract, which is currently being prepared. Concurrently with this approval, the Board authorized



another retail service agreement with the owner of approximately 282.31 acres of land, over which the owner proposes to create Eastwood Municipal Utility District (“Eastwood MUD”). Under the proposed contract with Eastwood MUD, the landowner, developer and proposed Eastwood MUD would similarly pay a prorata share, based on 1,665 LUEs of service, of the debt service on certain District facilities required to provide service to Eastwood MUD and of the District’s payments under the Lone Star Contract.

**STORM DRAINAGE FACILITIES . . .** Storm drainage for the District is provided by internal drainage networks, detention ponds and channels. The District does not anticipate receiving any revenues from its drainage system.

The northern portion of the District flows to Donahue Creek which outfalls into Little River and eventually the Brazos River. The southern portion of the District flows to Willies Creek which leads to the San Gabriel River and Little River

**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. According to the Engineer, approximately 16 acres of undevelopable land within the District are located within the current 100-year flood plain as designated by the most recent Federal Emergency Management Agency Flood Insurance Rate Map. However, the National Weather service recently completed a rainfall study known as Atlas 14 which shows that severe rainfall events are now occurring more frequently. Based on this study, various governmental agencies, including Williamson County, are contemplating potentially increasing the size of the 100 year floodplain. No assurances can be given whether such action may be taken or what impact, if any, it will have on development within the District. All of the land in the District which has been developed is outside the current 100-year flood plain. See “RISK FACTORS – Storm Water.”

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**DEBT SERVICE REQUIREMENTS**

Year Ending 9/30	Existing Debt <sup>(a)</sup>			The Bonds <sup>(b)</sup>			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 1,791,329	\$ 1,569,438	\$ 3,360,766	\$ -	\$ 18,600	\$ 18,600	\$ 3,379,366
2021	1,240,784	2,059,797	3,300,581	110,000	91,725	201,725	3,502,306
2022	1,245,350	2,019,481	3,264,831	110,000	87,325	197,325	3,462,156
2023	1,290,158	1,966,173	3,256,331	120,000	82,925	202,925	3,459,256
2024	1,510,065	1,745,791	3,255,856	26,684	171,441	198,125	3,453,981
2025	1,565,000	1,437,481	3,002,481	58,313	394,813	453,125	3,455,606
2026	1,625,000	1,376,981	3,001,981	370,000	78,125	448,125	3,450,106
2027	1,685,000	1,313,194	2,998,194	380,000	70,725	450,725	3,448,919
2028	1,755,000	1,246,244	3,001,244	375,000	63,125	438,125	3,439,369
2029	1,815,000	1,176,200	2,991,200	380,000	55,625	435,625	3,426,825
2030	1,880,000	1,103,144	2,983,144	395,000	47,075	442,075	3,425,219
2031	1,960,000	1,040,431	3,000,431	395,000	38,188	433,188	3,433,619
2032	2,030,000	974,981	3,004,981	405,000	28,313	433,313	3,438,294
2033	2,105,000	906,720	3,011,720	405,000	18,188	423,188	3,434,908
2034	2,395,000	835,739	3,230,739	75,000	7,050	82,050	3,312,789
2035	2,395,000	754,131	3,149,131	80,000	4,800	84,800	3,233,931
2036	2,480,000	670,100	3,150,100	80,000	2,400	82,400	3,232,500
2037	2,590,000	582,331	3,172,331	-	-	-	3,172,331
2038	2,705,000	489,631	3,194,631	-	-	-	3,194,631
2039	2,805,000	392,863	3,197,863	-	-	-	3,197,863
2040	2,390,000	290,450	2,680,450	-	-	-	2,680,450
2041	2,145,000	206,019	2,351,019	-	-	-	2,351,019
2042	1,630,000	131,388	1,761,388	-	-	-	1,761,388
2043	1,235,000	74,825	1,309,825	-	-	-	1,309,825
2044	870,000	31,538	901,538	-	-	-	901,538
	<u>\$ 47,137,686</u>	<u>\$ 24,395,070</u>	<u>\$ 71,532,757</u>	<u>\$ 3,764,997</u>	<u>\$ 1,260,440</u>	<u>\$ 5,025,437</u>	<u>\$ 76,558,194</u>

(a) Does not include payments to be made pursuant to the Lone Star Contract. Such contract payments are treated as an operation and maintenance expense of the District. Excludes the Refunded Bonds.

(b) Interest on the Bonds calculated at the rate shown on the inside cover page.

Average Annual Debt Service Requirements (2020-2044).....	\$3,062,328
Maximum Annual Debt Service Requirement (2021).....	\$3,502,306

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**ESTIMATED OVERLAPPING DEBT . . .** The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Williamson County.....	\$ 1,047,414,956	3/31/20	0.59%	\$ 6,179,748
Jarrell Independent School District.....	101,019,782	3/31/20	28.83%	29,124,003
Total Estimated Overlapping Debt .....				\$ 35,303,751
The District's Total Direct Debt <sup>(a)</sup> .....				<u>50,902,683</u>
Total Direct and Estimated Overlapping Debt.....				\$ 86,206,434

Direct and Estimated Overlapping Debt as a Percentage of:  
 2019 Certified Taxable Assessed Valuation ..... 20.65%

(a) Includes the Bonds and excludes the Refunded Bonds. Does not include payments to be made pursuant to the Lone Star Contract. Such contract payments are treated as an operation and maintenance expense of the District. See "THE BONDS – Source of Payment" and "THE SYSTEM – Water Supply and Distribution."

**OVERLAPPING TAXES . . .** Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of the taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt"), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

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

	2019 Tax Rate Per \$100 <u>Assessed Valuation</u>
Williamson County <sup>(a)</sup> .....	\$ 0.4587
Jarrell Independent School District.....	1.4700
Williamson County ESD #5.....	<u>0.1000</u>
Total Overlapping Tax Rate.....	\$ 2.0287
The District .....	<u>0.9475</u>
Total Tax Rate .....	\$ 2.9762

(a) Includes Williamson County's road and bridge fund tax.

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**TAX DATA**

**GENERAL . . .** All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds.

**DEBT SERVICE TAX . . .** The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate, without limit as to rate or amount, to provide funds to pay the principal of and interest on the Bonds.

**MAINTENANCE TAX . . .** The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted and voters of the District authorized, among other things, the Board to levy a maintenance tax, without limit as to rate or amount. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on any ad valorem tax-secured indebtedness, including the Bonds. See “– Debt Service Tax” above.

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

**ADDITIONAL PENALTIES . . .** The District has contracted with Williamson County to collect certain delinquent taxes. Under that contract, the Williamson County Tax Assessor-Collector is authorized to contract with private legal counsel to collect delinquent taxes and the fees of such legal counsel will be paid out of delinquent taxes, penalty and interest collected for the District by such legal counsel.

**HISTORICAL TAX RATE**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Debt Service	\$ 0.8300	\$ 0.8303	\$ 0.8279	\$ 0.8240
Maintenance	<u>0.1200</u>	<u>0.1198</u>	<u>0.1196</u>	<u>0.1235</u>
Total	\$ 0.9500	\$ 0.9500	\$ 0.9475	\$ 0.9475

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

Tax <u>Year</u>	Net Certified Taxable		Total <sup>(c)</sup> <u>Tax Levy</u>	Total Collections		
	<u>Assessed Valuation<sup>(a)(b)</sup></u>	<u>Tax Rate</u>		<u>Amount</u>	<u>Percent</u>	<u>As of</u>
2014	\$ 136,917,631	\$ 0.9500	\$1,300,717	\$1,310,616	100.76%	09/30/15
2015	168,865,807	0.9500	1,604,225	1,604,225	100.00%	09/30/16
2016	212,673,544	0.9500	2,020,399	2,007,670	99.37%	09/30/17
2017	262,360,250	0.9500	2,492,422	2,489,930	99.90%	09/30/18
2018	340,167,189	0.9475	3,223,084	3,208,258	99.54%	09/30/19
2019	417,373,159	0.9475	4,404,994	4,310,287	97.85%	02/01/20

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

(b) On February 20, 2018, the District substituted land as authorized by Sections 54.739-54.747, Texas Water Code, by excluding approximately 250 acres of land then in the District and including approximately 85 acres of land then adjacent to the District. According to the County’s Chief Appraiser, the 85 acres of land included in the District had a higher taxable value than the 250 acres of land excluded from the District, which resulted in an increase in the District’s taxable appraisal value of \$534,647 at the time of the substitution. Such increase in taxable appraised value is included beginning with the 2019 tax year. See “TAX DATA – Substitution of Land in the District.”

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

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

	<u>2017 Certified TAV</u>	<u>2018 Certified TAV</u>	<u>2019 Certified TAV<sup>(a)</sup></u>
Land and Improvements	\$ 276,509,385	\$ 350,597,110	\$ 430,582,848
Personal Property	<u>2,130,479</u>	<u>2,001,314</u>	<u>3,153,917</u>
Total Assessed Valuation	\$ 278,639,864	\$ 352,598,424	\$ 433,736,765
Exemptions	<u>16,269,614</u>	<u>12,431,235</u>	<u>16,363,606</u>
Total Taxable Appraised Valuation	\$ 262,370,250	\$ 340,167,189	\$ 417,373,159

(a) On February 20, 2018, the District substituted land as authorized by Sections 54.739-54.747, Texas Water Code, by excluding approximately 250 acres of land then in the District and including approximately 85 acres of land then adjacent to the District. According to the County’s Chief Appraiser, the 85 acres of land included in the District had a higher taxable value than the 250 acres of land excluded from the District, which resulted in an increase in the District’s taxable appraisal value of \$534,647 at the time of the substitution. Such increase in taxable appraisal value is included beginning with the 2019 tax year. See “TAX DATA – Substitution of Land in the District.”

**SUBSTITUTION OF LAND IN THE DISTRICT . . .** Under Sections 54.739-54.747, Texas Water Code, a district may, under certain circumstances, substitute land and alter its boundaries by excluding land subject to taxation within the District and simultaneously including land of at least equal taxable value. Such a substitution will not impair the security of the district’s outstanding bonds and any other contractual obligations payable or secured by ad valorem taxes or revenues of the District.

On February 20, 2018, after receipt of an application for the substitution of land, providing the appropriate notice and conducting a hearing, the District excluded approximately 250 acres of land from the District and simultaneously included approximately 85 acres of land then located outside the boundaries of the District. The approximate taxable value of the 85 acres of land added to the District was determined to be \$2,106,907 and the approximate taxable value of the 250 acres of land excluded from the District was determined to be \$1,572,260, each based on certifications from the County’s Chief Appraiser. Therefore, after giving effect to the substitution, the total appraisal value of all land in the District increased \$534,647 as of February, 2018. The District received a certification from its Financial Advisor that the taxable value of the included land equaled or exceeded the taxable value of the excluded land.

No representation is made concerning the likelihood that the District will affect any additional changes to its boundaries.

**PRINCIPAL TAXPAYERS . . .** The following table represents the District’s principal taxpayers, the taxable assessed value of each principal taxpayers’ property in the District, and such property’s assessed value as a percentage of the District’s 2019 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Taxable Assessed Value</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Sonterra Apartments Partners	\$ 10,468,048	2.51%
SonWest Co. <sup>(a)</sup>	10,454,358	2.51%
Leemak Jarrell LLC	9,246,831	2.22%
Sonterra Townhomes Partners	8,635,090	2.07%
LGI Homes-Texas LLC	6,102,462	1.46%
RVest LP <sup>(a)</sup>	4,883,820	1.17%
Lennar Homes of Texas Land & Construction Ltd.	4,539,061	1.09%
Big Red Barn V, Ltd.	3,290,987	0.79%
Sonterra Center Partners	2,166,078	0.52%
National Retail Properties LP	<u>2,105,726</u>	<u>0.50%</u>
Total	\$ 61,892,461	14.84%

(a) The Developer or its affiliate.

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**TAX ADEQUACY FOR DEBT SERVICE . . .** The tax rate calculations set forth below indicate the tax rates per \$100 appraised valuation that would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$417,373,159. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and outstanding debt of the District payable from taxes when due, assuming no further increase nor any decrease in taxable values in the District, collection of ninety five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “DEBT SERVICE REQUIREMENTS.”

Average Annual Debt Service Requirement (2020-2044).....	\$3,062,328 <sup>(a)</sup>
\$0.7724 Tax Rate on 2019 Certified Taxable Assessed Valuation at 95% collection .....	\$3,062,601 <sup>(a)</sup>
Maximum Annual Debt Service Requirement (2021).....	\$3,502,306 <sup>(a)</sup>
\$0.8833 Tax Rate on 2019 Certified Taxable Assessed Valuation at 95% collection .....	\$3,502,324 <sup>(a)</sup>

(a) Includes the Bonds and excludes the Refunded Bonds. Does not include payments to be made pursuant to the Lone Star Contract or capital leases. Such contract payments are treated as an operation and maintenance expense of the District. See “THE BONDS – Source of Payment” and “THE SYSTEM – Water Supply and Distribution.”

**DISTRICT OPERATIONS . . .** A condensed statement of the operating activities of the General Fund of the District is provided below as reflected in the District’s September 30, 2019 audit report:

	District Activities As of September 30, 2017	District Activities As of September 30, 2018	District Activities As of September 30, 2019
Property Tax	\$ 266,307	\$ 328,615	\$ 405,922
Water/Wastewater	1,635,843	1,973,133	2,283,719
Solid Waste	307,363	371,925	439,109
Other	<u>1,154,819</u>	<u>1,189,594</u>	<u>1,762,129</u>
Total Revenues	\$ 3,364,332	\$ 3,863,267	\$ 4,890,879
Total Expenses	\$ 3,241,485	\$ 3,453,811	\$ 4,055,352
Excess (Deficiency)	\$ 122,847	\$ 409,456	\$ 835,527

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## INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT

Under State law, the District is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District’s custodian of the banking deposits issued for the District’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the “SEC”) and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the “PFIA”) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District’s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than ten (10) years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the District Council detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the District Council.

**ADDITIONAL PROVISIONS . . .** Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

**CURRENT INVESTMENTS . . .** As of January 20, 2020, the District's \$2,885,475 of operating funds were held by First Citizens Bank, BBVA Bank, R Bank and in various FDIC-insured certificates of deposit. A portion of the of the District's investable funds, totaling \$5,621,931 (including \$1,212,439 in the capital projects fund), were held by TexPool, in a money market account, and in various FDIC-insured certificates of deposit as of the same date.

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## TAXING PROCEDURES

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

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

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

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

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

**PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . .** Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by WCAD to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the surviving spouse (so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran is partially exempt to between \$5,000 and \$12,000 of assessed value depending on the disability rating of the veteran. Additionally, if an individual dies while on active duty as a member of the armed services of the United States, the surviving spouse and surviving children (under 18 years of age) are entitled to an exemption from taxation of \$5,000 of the assessed value of certain designated property owned by the spouse or children. A disabled veteran who receives 100% disability compensation from the United States Department of Veteran Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran’s residence homestead when the disabled veteran died, or the surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Furthermore, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran’s disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization

as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

*Residential Homestead Exemptions:* Under Article VIII, Section 1-b of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision.

Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Tax Code, under Article VIII, Section 1-b of the Texas Constitution, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) is prohibited from repealing or reducing the amount of such exemption.

In the case of residence homestead exemptions granted under Article VIII, Section 1-b, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

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

*Other Exempt Property:* Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or

university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

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

**VALUATION OF PROPERTY FOR TAXATION . . .** Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

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

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

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business being valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business.

Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

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

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

**LEVY AND COLLECTION OF TAXES . . .** The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding

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

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

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

#### *Special Taxing Units*

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

#### *Developed Districts*

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

#### *Developing Districts*

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

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

**DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "TAX DATA – Estimated Overlapping Taxes"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "RISK FACTORS – Tax Collection Limitations and Foreclosure Remedies."

**THE EFFECT OF FIRREA ON TAX COLLECTIONS OF THE DISTRICT . . .** The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## LEGAL MATTERS

**LEGAL OPINIONS . . .** The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX A – Form of Bond Counsel's Opinion." Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "PLAN OF FINANCING – Refunded Bonds," "THE BONDS," (except for the subcaptions "Book-Entry-Only System," the last paragraph

of “– Issuance of Additional Debt,” the last sentence of “– Parks,” and the last paragraph of “– Annexation”), “LEGAL MATTERS” (except for the next the last sentence of the first paragraph thereof), “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” to determine that the information relating to the Bonds and the Bond Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

## **TAX MATTERS**

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

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate, and (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such an opinion and is not a guarantee of result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

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

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

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

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

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

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

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law

and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## PREPARATION OF OFFICIAL STATEMENT

**SOURCES AND COMPILATION OF INFORMATION . . .** The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District 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 . . .** Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the issuer and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

**CONSULTANTS . . .** In approving this Official Statement the District has relied upon the following consultants:

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

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

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

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## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”) through its electronic municipal market access system. Information will be available free of charge by the MSRB via the Electronic Municipal Market Access (“EMMA”) system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually through EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in the table titled “DEBT SERVICE REQUIREMENTS,” under the heading “TAX DATA” (except for information related to tax adequacy for debt service) and in APPENDIX A. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements of the District, if the District commissions an audit and it is completed by the required time. If the audit of such financial statements is not complete within twelve months after the District’s fiscal year end, then the District shall file unaudited financial statements for the applicable fiscal year to the MSRB within such twelve-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the District may be required to employ from time to time pursuant to Texas law or regulation.

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

**NOTICE OF CERTAIN EVENTS . . .** The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties “Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule..

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

**AVAILABILITY OF INFORMATION FROM MSRB . . .** The District has agreed to provide the foregoing information only to the MSRB as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

#### MISCELLANEOUS

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

/s/ JOHN FASKE  
President, Board of Directors  
Sonterra Municipal Utility District

ATTEST:

/s/ DARRELL GOLDMAN  
Secretary, Board of Directors  
Sonterra Municipal Utility District

**SCHEDULE I****SCHEDULE OF REFUNDED BONDS**

Unlimited Tax and Revenue Bonds, Series 2011			
	<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>
\$	50,000	8/15/2021	4.750%
	50,000	8/15/2022 <sup>(1)</sup>	5.000%
	55,000	8/15/2023 <sup>(1)</sup>	5.000%
	55,000	8/15/2024	5.100%
	60,000	8/15/2025	5.200%
	65,000	8/15/2026 <sup>(2)</sup>	5.350%
	70,000	8/15/2027 <sup>(2)</sup>	5.350%
	70,000	8/15/2028 <sup>(2)</sup>	5.350%
	75,000	8/15/2029 <sup>(2)</sup>	5.350%
	80,000	8/15/2030 <sup>(2)</sup>	5.350%
	85,000	8/15/2031 <sup>(3)</sup>	4.500%
	90,000	8/15/2032 <sup>(3)</sup>	5.500%
	95,000	8/15/2033 <sup>(3)</sup>	5.500%
	100,000	8/15/2034 <sup>(3)</sup>	5.500%
	105,000	8/15/2035 <sup>(3)</sup>	5.500%
	110,000	8/15/2036 <sup>(3)</sup>	5.500%
	<u>\$ 1,215,000</u>		

Redemption Date: 8/15/2020  
Redemption Price: 100%

Unlimited Tax and Revenue Refunding Bonds, Series 2013			
	<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>
\$	250,000	8/15/2025 <sup>(4)</sup>	4.250%
	255,000	8/15/2026 <sup>(4)</sup>	4.250%
	265,000	8/15/2027 <sup>(5)</sup>	4.500%
	270,000	8/15/2028 <sup>(5)</sup>	4.500%
	280,000	8/15/2029 <sup>(6)</sup>	4.750%
	295,000	8/15/2030 <sup>(6)</sup>	4.750%
	300,000	8/15/2031 <sup>(7)</sup>	5.000%
	315,000	8/15/2032 <sup>(7)</sup>	5.000%
	320,000	8/15/2033 <sup>(7)</sup>	5.000%
	<u>\$ 2,550,000</u>		

Redemption Date: 8/15/2020  
Redemption Price: 100%

- (1) Term Bonds maturing on August 15, 2023.  
(2) Term Bonds maturing on August 15, 2030.  
(3) Term Bonds maturing on August 15, 2036.  
(4) Term Bonds maturing on August 15, 2026.  
(5) Term Bonds maturing on August 15, 2028.  
(6) Term Bonds maturing on August 15, 2030.  
(7) Term Bonds maturing on August 15, 2033.

**SCHEDULE II**

**SCHEDULE OF ACCRETED VALUE OF  
PREMIUM COMPOUND INTEREST BONDS**

Date	8/15/2024	8/15/2025
	Offering Yield @ 2.13010%	Offering Yield @ 2.21011%
6/2/2020	\$ 4,574.00	\$ 4,459.70
8/15/2020	4,593.69	4,479.62
2/15/2021	4,642.62	4,529.12
8/15/2021	4,692.07	4,579.17
2/15/2022	4,742.04	4,629.78
8/15/2022	4,792.54	4,680.94
2/15/2023	4,843.59	4,732.66
8/15/2023	4,895.17	4,784.96
2/15/2024	4,947.31	4,837.84
8/15/2024	5,000.00	4,891.30
2/15/2025		4,945.35
8/15/2025		5,000.00

**AERIAL BOUNDARY MAP**

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WE, THE UNDERSIGNED MEMBERS OF THE BOARD OF DIRECTORS OF THE SONTERRA MUNICIPAL UTILITY DISTRICT OF WILLIAMSON COUNTY, DO HEREBY CERTIFY THAT THIS MAP IS A COMPLETE AND ACCURATE MAP SHOWING THE BOUNDARIES OF SAID DISTRICT.

*[Signatures]*

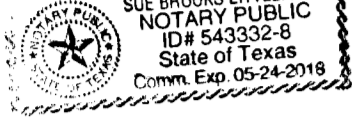
DAVID CHANDOS, VICE PRESIDENT  
 JOHN FASKE, PRESIDENT  
 TOM SLOWAGE, ASSISTANT SECRETARY  
 DALE THORNTON, TREASURER

THE STATE OF TEXAS  
 COUNTY OF WILLIAMSON

BEFORE ME, THE UNDERSIGNED, A NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS ON THIS DAY PERSONALLY APPEARED **DAVID CHANDOS, JOHN FASKE, TOM SLOWAGE AND DALE THORNTON** OF THE SONTERRA MUNICIPAL UTILITY DISTRICT OF WILLIAMSON COUNTY, TEXAS, KNOWN TO ME TO BE THE PERSONS AND OFFICERS WHOSE NAMES ARE SUBSCRIBED ABOVE, AND AFFIRMED AND ACKNOWLEDGED THE STATEMENT SUBSCRIBED TO ABOVE THAT THEY EXECUTED SAME IN THE CAPACITY THEREIN STATED.

GIVE UNDER MY HAND AND SEAL OF OFFICE THIS THE 20<sup>th</sup> DAY OF February, 2018.

*[Signature]*  
 NOTARY PUBLIC IN AND FOR THE STATE OF TEXAS



NOTE:

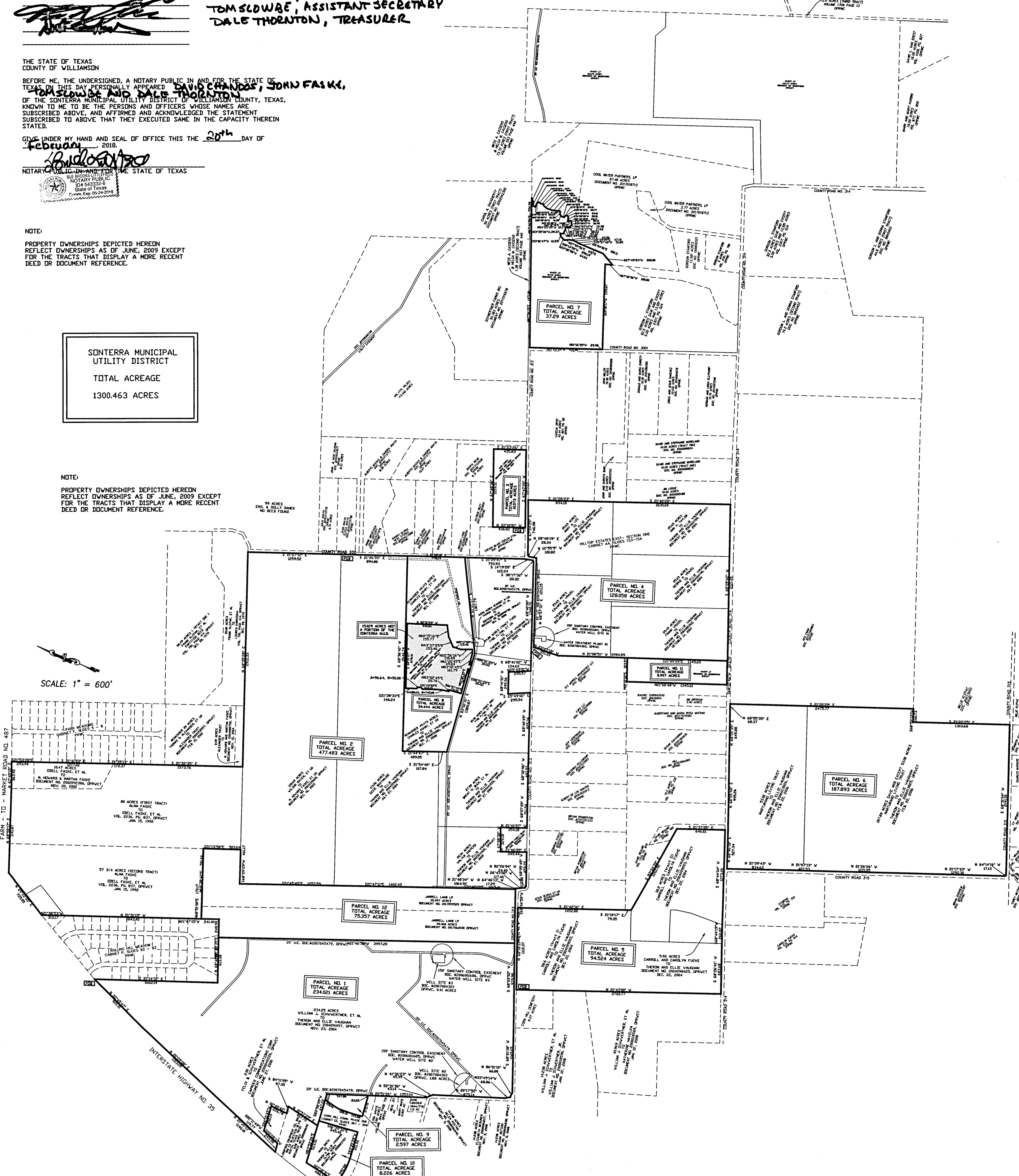
PROPERTY OWNERSHIPS DEPICTED HEREON REFLECT OWNERSHIPS AS OF JUNE, 2009 EXCEPT FOR THE TRACTS THAT DISPLAY A MORE RECENT DEED OR DOCUMENT REFERENCE.

SONTERRA MUNICIPAL UTILITY DISTRICT  
 TOTAL ACREAGE  
 1300.463 ACRES

NOTE:

PROPERTY OWNERSHIPS DEPICTED HEREON REFLECT OWNERSHIPS AS OF JUNE, 2009 EXCEPT FOR THE TRACTS THAT DISPLAY A MORE RECENT DEED OR DOCUMENT REFERENCE.

SCALE: 1" = 600'

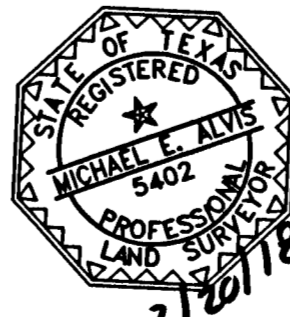


SURVEYORS CERTIFICATE

THE PLAT SHOWN HEREON IS A TRUE AND CORRECT REPRESENTATION OF THE PROPERTY AS DETERMINED BY SURVEY, THE LINES AND DIMENSIONS OF SAID PROPERTY BEING AS SHOWN. THERE ARE NO ENCRUMPTIONS, CONFLICTS OR PROTRUSIONS, EXCEPT AS SHOWN HEREON, AND SAID PROPERTY HAS ACCESS TO AND FROM A PUBLICLY DEDICATED ROADWAY.

BEARING BASE: TEXAS STATE PLANE COORDINATE SYSTEM, NAD 1983, CENTRAL ZONE.

THIS IS TO CERTIFY THAT TO THE BEST OF MY KNOWLEDGE AND BELIEF THE DRAWING HEREON IS A TRUE AND CORRECT REPRESENTATION OF THE FIELD NOTE DESCRIPTION OF THE SONTERRA MUNICIPAL UTILITY DISTRICT.



*[Signature]*  
 MICHAEL E. ALVIS, R.P.L.S. NO. 5402  
 STATE OF TEXAS

FIELD BOOK	18-563
JOB NO.:	18-563
SHEET	1 OF 1
COMPUTER	MUDBOUNDARY
DWG. NO.	
DRAWING NUMBER	18253-D

FEBRUARY 2018 BOUNDARY MAP  
 SONTERRA MUNICIPAL UTILITY DISTRICT  
 WILLIAMSON COUNTY, TEXAS

REVISIONS	

FIRM REGISTRATION NO. F-1658  
 ENGINEERING • PLANNING • SURVEYING  
 CONSTRUCTION MANAGEMENT  
**TURLEY ASSOCIATES, INC.**  
 301 N. 3rd ST. TEMPLE, TEXAS (254) 773-2400  
 E-MAIL: MAIL@TURLEY-INC.COM

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**PHOTOGRAPHS OF THE DISTRICT**

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**APPENDIX A**

AUDITED FINANCIAL STATEMENT OF THE DISTRICT  
FOR TWELVE-MONTHS ENDED SEPTEMBER 30, 2019

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

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
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9600 Great Hills Trail  
Suite 150W  
Austin, Texas 78759  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Sonterra Municipal Utility District  
Williamson County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Sonterra Municipal Utility District (the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Austin, Texas

January 20, 2020



**SONTERRA MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

In accordance with Governmental Accounting Standards Board Statement No. 34, the management of Sonterra Municipal Utility District (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2019. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for property tax revenues and general operating expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$1,128,891 as of September 30, 2019. The following is a comparative analysis of the government-wide changes in net position:

**SONTERRA MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current Assets	\$ 7,726,774	\$ 5,262,560	\$ 2,464,214
Noncurrent Assets (Net of Accumulated Depreciation and Amortization)	<u>66,591,333</u>	<u>30,373,861</u>	<u>36,217,472</u>
Total Assets	<u>\$ 74,318,107</u>	<u>\$ 35,636,421</u>	<u>\$ 38,681,686</u>
Deferred Outflows of Resources	\$ 918,048	\$ 982,143	\$ (64,095)
Bonds Payable	\$ 36,421,269	\$ 30,247,654	\$ (6,173,615)
Capital Leases Payable	661,487	684,371	22,884
Other Long-Term Debt Payable	34,142,587	2,900,000	(31,242,587)
Other Liabilities	<u>2,881,921</u>	<u>2,858,234</u>	<u>(23,687)</u>
Total Liabilities	<u>\$ 74,107,264</u>	<u>\$ 36,690,259</u>	<u>\$ (37,417,005)</u>
Net Position:			
Net Investment in Capital Assets	\$ (2,428,072)	\$ (2,446,268)	\$ 18,196
Restricted	810,227	473,039	337,188
Unrestricted	<u>2,746,736</u>	<u>1,901,534</u>	<u>845,202</u>
Total Net Position	<u>\$ 1,128,891</u>	<u>\$ (71,695)</u>	<u>\$ 1,200,586</u>

The following table provides a summary of the District's operations for the years ended September 30, 2019 and September 30, 2018. During the current fiscal year, the District's net position increased by \$1,200,586. Comparative data is presented below:

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,219,878	\$ 2,606,370	\$ 613,508
Service Revenues	3,612,225	2,881,403	730,822
Parks & Recreation Fees	767,088	594,759	172,329
Other Revenues	<u>207,517</u>	<u>111,469</u>	<u>96,048</u>
Total Revenues	<u>\$ 7,806,708</u>	<u>\$ 6,194,001</u>	<u>\$ 1,612,707</u>
Expenses for Services	<u>6,606,122</u>	<u>5,583,095</u>	<u>(1,023,027)</u>
Change in Net Position	\$ 1,200,586	\$ 610,906	\$ 589,680
Net Position, Beginning of Year	<u>(71,695)</u>	<u>(682,601)</u>	<u>610,906</u>
Net Position, End of Year	<u>\$ 1,128,891</u>	<u>\$ (71,695)</u>	<u>\$ 1,200,586</u>

**SONTERRA MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

The District's combined fund balances as of September 30, 2019, were \$6,559,120, an increase of \$2,347,716 from the prior year.

The General Fund fund balance increased by \$893,157 due to property tax and service revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$196,422, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$1,258,137, primarily due to the issuance of the District's Series 2019 Unlimited Tax Bonds.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors annually adopts an unappropriated budget for the General Fund. For the 2019 fiscal year, the District's Board of Directors adopted a budget projecting a \$158,558 increase in General Fund fund balance. The District did not amend the budget during the current fiscal year. Actual revenues were \$88,002 higher than budgeted revenues and actual expenditures were \$588,967 lower than budgeted expenditures. More detailed information about the District's budgetary comparison is presented in the Required Supplementary Information section.

**CAPITAL ASSETS**

The District's governmental activities have invested \$35,258,746 in land and land improvements, construction in progress and infrastructure and equipment. The detail is reflected in the following schedule:

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 417,017	\$ 240,876	\$ 176,141
Construction in Progress	209,140	1,107,327	(898,187)
Capital Assets, Net of Accumulated Depreciation:			
Water and Wastewater System	33,867,813	28,239,310	5,628,503
Office Building	325,457	340,957	(15,500)
Pool & Clubhouse	420,141	437,871	(17,730)
Furniture, Fixtures and Equipment	19,178	7,520	11,658
<b>Total Net Capital Assets</b>	<b>\$ 35,258,746</b>	<b>\$ 30,373,861</b>	<b>\$ 4,884,885</b>

**SONTERRA MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**LONG-TERM DEBT ACTIVITY**

As of September 30, 2019, the District had total bond debt payable of \$36,452,686. The changes in the bonded debt position of the District during the fiscal year ended September 30, 2019, is summarized as follows:

Bond Debt Payable, October 1, 2018	\$ 30,255,223
Add: Bond Sale	7,580,000
Less: Bond Principal Paid	<u>1,382,537</u>
Bond Debt Payable, September 30, 2019	<u>\$ 36,452,686</u>

The District's underlying rating is "Baa1" by Moody's Investor Service. The District's 2011 and Series 2013 bonds are uninsured. The District's Series 2014, Series 2015 and Series 2019 bonds carry an insured rating of "AA:A2" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The District's Series 2015 Refunding and Series 2018 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual. The District's Series 2016 bonds carry an insured rating of "Baa2" by National Public Finance Guarantee Corporation. The ratio of the District's long-term debt to the total taxable assessed valuation (\$339,370,348) is 10.7%. The District's estimated population as provided by the District is 6,461.

In addition to the bonded debt discussed above, the District has \$661,487 of capital leases payable at September 30, 2019 related to lease purchase agreements for a pool and the District office building. The District also has \$2,810,000 of long-term debt payable to the Lone Star Regional Water Authority (the "Authority") for use in acquiring, by purchase and construction, certain water storage and transmission facilities to serve the District. Finally, the District has \$31,332,587 of long-term financing obligations payable to the Authority to help finance construction of the water supply system to serve the District; the District has a corresponding, offsetting \$31,332,587 intangible asset for the right to receive water service from the Authority.

**CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

The adopted budget for fiscal year 2020 projects an increase in General Fund fund balance of \$1,321,542. Compared to the fiscal year 2019 budget, revenues are expected to increase by approximately \$1,846,000 and expenditures are expected to increase by approximately \$683,000. The fiscal year 2020 tax rate has been established at \$0.9475 on each \$100 of taxable value and 87% of the property tax will be used to fund debt service and 13% to fund general operations.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Sonterra Municipal Utility District, c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 777,962	\$
Investments	2,436,000	2,522,590
Receivables:		
Property Taxes	3,753	22,558
Service Accounts (Net of Allowance for Doubtful Accounts of \$10,947)	363,185	
Accrued Interest	21,862	6,069
Other	21,664	
Due from Other Funds	8,786	
Prepaid Costs	70,298	
Intangible Assets (Net of Accumulated Amortization) - Right to Receive Water Service		
Capital Assets (Net of Accumulated Depreciation):		
Land and Land Improvements		
Construction in Progress		
Water and Wastewater System		
Office Building		
Pool & Clubhouse		
Furniture, Fixtures and Equipment		
<b>TOTAL ASSETS</b>	<b>\$ 3,703,510</b>	<b>\$ 2,551,217</b>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	\$	\$
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,703,510</b>	<b>\$ 2,551,217</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 17,126	\$ 795,088	\$	\$ 795,088
1,463,707	6,422,297		6,422,297
	26,311		26,311
	363,185		363,185
	27,931		27,931
	21,664		21,664
	8,786	(8,786)	
	70,298		70,298
		31,332,587	31,332,587
		417,017	417,017
		209,140	209,140
		33,867,813	33,867,813
		325,457	325,457
		420,141	420,141
		19,178	19,178
<u>\$ 1,480,833</u>	<u>\$ 7,735,560</u>	<u>\$ 66,582,547</u>	<u>\$ 74,318,107</u>
<u>\$</u>	<u>\$</u>	<u>\$ 918,048</u>	<u>\$ 918,048</u>
<u>\$ 1,480,833</u>	<u>\$ 7,735,560</u>	<u>\$ 67,500,595</u>	<u>\$ 75,236,155</u>

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

**SONTERRA MUNICIPAL UTILITY DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 564,543	\$
Accrued Interest Payable		
Due to Developer		
Retainage Payable		
Due to Other Funds		412
Review Fee Deposits	1,197	
Security Deposits	391,034	
Long-Term Liabilities:		
Facility Financing Obligation - Lone Star Regional Water Authority, Due Within One Year		
Facility Financing Obligation - Lone Star Regional Water Authority, Due After One Year		
Debt Payable - Lone Star Regional Water Authority, Due Within One Year		
Debt Payable - Lone Star Regional Water Authority, Due After One Year		
Capital Leases Payable, Due Within One Year		
Capital Leases Payable, Due After One Year		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 956,774</b>	<b>\$ 412</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 3,753	\$ 22,558
<b>FUND BALANCES</b>		
Nonspendable -		
Prepaid Costs	\$ 70,298	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,528,247
Unassigned	2,672,685	
<b>TOTAL FUND BALANCES</b>	<b>\$ 2,742,983</b>	<b>\$ 2,528,247</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,703,510</b>	<b>\$ 2,551,217</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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



Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 33,660	\$ 598,203	\$	\$ 598,203
		1,740,578	1,740,578
138,180	138,180		138,180
12,729	12,729		12,729
8,374	8,786	(8,786)	
	1,197		1,197
	391,034		391,034
		300,245	300,245
		31,032,342	31,032,342
		90,000	90,000
		2,720,000	2,720,000
		24,441	24,441
		637,046	637,046
		1,791,329	1,791,329
		34,629,940	34,629,940
<u>\$ 192,943</u>	<u>\$ 1,150,129</u>	<u>\$ 72,957,135</u>	<u>\$ 74,107,264</u>
\$ -0-	\$ 26,311	\$ (26,311)	\$ -0-
\$	\$ 70,298	\$ (70,298)	\$
1,287,890	1,287,890	(1,287,890)	
	2,528,247	(2,528,247)	
	2,672,685	(2,672,685)	
<u>\$ 1,287,890</u>	<u>\$ 6,559,120</u>	<u>\$ (6,559,120)</u>	<u>\$ - 0 -</u>
<u>\$ 1,480,833</u>	<u>\$ 7,735,560</u>		
		\$ (2,428,072)	\$ (2,428,072)
		810,227	810,227
		2,746,736	2,746,736
		<u>\$ 1,128,891</u>	<u>\$ 1,128,891</u>

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

**SONTERRA MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019**

Total Fund Balances - Governmental Funds \$ 6,559,120

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

Intangible assets (the right to receive water service) used governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 31,332,587

Land and land improvements, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 35,258,746

Deferred charges on refunding bonds are not an expenditure in the current period and, therefore, are amortized over the life of the new debt or the remaining life of the old debt, whichever is shorter. 918,048

Deferred inflows of resources related to property tax revenues on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. 26,311

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

Accrued Interest Payable	\$ (172,614)	
Accreted Interest Payable on Compound Interest Bonds	(1,567,964)	
Facility Financing Obligation - Lone Star Regional Water Authority	(31,332,587)	
Debt Payable - Lone Star Regional Water Authority	(2,810,000)	
Capital Leases Payable	(661,487)	
Bonds Payable, net	<u>(36,421,269)</u>	<u>(72,965,921)</u>

Total Net Position - Governmental Activities \$ 1,128,891

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

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**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes, Including Penalty and Interest	\$ 405,922	\$ 2,809,897
Water Service	1,211,852	
Wastewater Service	1,071,867	
Trash and Recycling Service	439,109	
Penalty and Interest	81,524	
Inspection and Tap Fees	807,873	
Park and Recreation Fees	767,088	
Investment Revenues	44,044	89,294
Miscellaneous Revenues	61,600	66
<b>TOTAL REVENUES</b>	<b>\$ 4,890,879</b>	<b>\$ 2,899,257</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Parks and Recreation Salaries, Repairs and Maintenance Expenditures	\$ 420,688	\$
Professional Fees	481,260	
Contracted Services	833,450	3,350
Purchased Water Service	184,635	
Purchased Wastewater Service	861,456	
Utilities	143,100	
Repairs and Maintenance	156,787	
Depreciation and Amortization		
Developer Interest		
Other	301,203	5
Capital Outlay	130,611	
Debt Service:		
Principal	209,187	1,382,537
Interest	332,975	1,316,943
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 4,055,352</b>	<b>\$ 2,702,835</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES</b>	<b>\$ 835,527</b>	<b>\$ 196,422</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	\$ 57,630	\$
Proceeds from Issuance of Long-Term Debt		
Bond Discount		
<b>TOTAL OTHER FINANCING SOURCES, NET</b>	<b>\$ 57,630</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 893,157</b>	<b>\$ 196,422</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - OCTOBER 1, 2018</b>	<b>1,849,826</b>	<b>2,331,825</b>
<b>FUND BALANCES/NET POSITION - SEPTEMBER 30, 2019</b>	<b>\$ 2,742,983</b>	<b>\$ 2,528,247</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 3,215,819	\$ 4,059	\$ 3,219,878
	1,211,852		1,211,852
	1,071,867		1,071,867
	439,109		439,109
	81,524		81,524
	807,873		807,873
	767,088		767,088
12,513	145,851		145,851
	61,666		61,666
<u>\$ 12,513</u>	<u>\$ 7,802,649</u>	<u>\$ 4,059</u>	<u>\$ 7,806,708</u>
\$	\$ 420,688	\$	\$ 420,688
	481,260		481,260
	836,800		836,800
	184,635		184,635
	861,456		861,456
	143,100		143,100
	156,787		156,787
		1,042,637	1,042,637
154,299	154,299		154,299
	301,208		301,208
5,521,505	5,652,116	(5,652,116)	
	1,591,724	(1,591,724)	
	1,649,918	(251,467)	1,398,451
576,354	576,354	48,447	624,801
<u>\$ 6,252,158</u>	<u>\$ 13,010,345</u>	<u>\$ (6,404,223)</u>	<u>\$ 6,606,122</u>
<u>\$ (6,239,645)</u>	<u>\$ (5,207,696)</u>	<u>\$ 6,408,282</u>	<u>\$ 1,200,586</u>
\$ (57,630)	\$	\$	\$
7,580,000	7,580,000	(7,580,000)	
(24,588)	(24,588)	24,588	
<u>\$ 7,497,782</u>	<u>\$ 7,555,412</u>	<u>\$ (7,555,412)</u>	<u>\$ -0-</u>
\$ 1,258,137	\$ 2,347,716	\$ (2,347,716)	\$
		1,200,586	1,200,586
29,753	4,211,404	(4,283,099)	(71,695)
<u>\$ 1,287,890</u>	<u>\$ 6,559,120</u>	<u>\$ (5,430,229)</u>	<u>\$ 1,128,891</u>

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

**SONTERRA MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2019**

Net Change in Fund Balances - Governmental Funds \$ 2,347,716

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 4,059

Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital and intangible assets are recorded as assets and depreciated/amortized over their useful lives. (1,042,637)

Capital outlay is an expenditure in the governmental funds and is shown as either a reduction in the liability to the developer in the government-wide financial statements or as capital assets. 5,652,116

Governmental funds report bond discounts and premiums as other financing sources and uses in the year paid or received and report bond insurance premiums as bond issuance costs in the year paid. However, in the Statement of Net Position, bond discounts and premiums and bond insurance premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. (24,599)

Governmental funds report principal payments on long-term debt, bonds and capital leases as expenditures. However, in the Statement of Net Position, principal payments are reported as decreases in long-term liabilities. 1,591,724

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. 316,302

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. (7,580,000)

Governmental funds report payments to the refunded bond escrow agent as other financing uses. However, in the Statement of Net Position the difference between the payment to the refunded bond escrow agent and the bonds refunded is a deferred outflow of resources and is amortized over the the life of the refunding bonds or the life of the bonds refunded, whichever is shorter. (64,095)

Change in Net Position - Governmental Activities \$ 1,200,586

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

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 1. CREATION OF DISTRICT**

Sonterra Municipal Utility District (the "District"), a political subdivision of the State of Texas, was created by an Act of the 75<sup>th</sup> Texas Legislature effective September 1, 2005. The District was created and organized for the purpose of constructing water, sewer and drainage facilities and providing water, sewer, drainage and solid waste services to residential and commercial establishments within the District. The District is also authorized to provide park and recreational facilities.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Financial Statement Presentation

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

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

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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



**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Fund Financial Statements

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

Governmental Funds

The District has three major governmental funds and considers each to be a major fund.

General Fund – To account for resources not required to be accounted for in another fund, ad valorem taxes and general operating expenditures.

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Basis of Accounting (Continued)

As of September 30, 2019, the Debt Service Fund owed the General Fund \$412 for maintenance tax collections, and the Capital Projects owed the General Fund \$8,374 for construction costs to be reimbursed from bond proceeds. During the year ended September 30, 2019, the Capital Projects Fund transferred \$71,403 to the General Fund to reimburse the General Fund for construction costs approved for reimbursement from bond proceeds, and the General Fund transferred \$13,773 to the Capital Projects Fund to fund the final payment for waterline improvements.

Budgeting

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

Accounts Receivable

The District provides for uncollectible service accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District had an allowance for uncollectible accounts of \$10,947 at September 30, 2019.

Intangible Assets

Intangible assets, which consists of the right to receive water service, are reported in the government-wide column in the Statement of Net Position. Intangible assets are valued at the same amount as the outstanding facility financing obligation due to Lone Star Regional Water Authority and will be amortized down corresponding to principal and interest payments made to the Authority on the facility financing obligation. See Note 10 for information concerning the facility financing obligation and corresponding right to receive water service from Lone Star Regional Water Authority.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Capital Assets

Capital assets, which include land and land improvements, construction in progress, the water and wastewater system, the District office building, pool and clubhouse, and furniture, fixtures and equipment, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Interest costs, including developer interest, are not capitalized as part of the asset. Impact fees are amortized over the life of the applicable contract.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water and Wastewater System	40-50
Office Building	30
Pool and Clubhouse	10-30
Furniture, Fixtures and Equipment	7-10

Long-term Debt

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses.

Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in both the government-wide and the fund financial statements.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Pensions

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

Accounting Estimates

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

Reclassifications

Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net position or fund balance.

Measurement Focus

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

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

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

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

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Measurement Focus (Continued)

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

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

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

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

Recently Issued Accounting Pronouncements

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the purpose of which is (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, the cost of assets capitalized and depreciated will no longer include an interest component. Developer interest will instead be shown separately as an expenditure in the fund it was paid from (not combined with capital outlay) and as an expense in the government-wide financial statements. GASB Statement No. 89 is effective for fiscal years beginning after December 15, 2019, though early application is encouraged, and the requirements of this standard are to be applied prospectively. Management has chosen to early implement GASB Statement No. 89 as of and for the fiscal year ended September 30, 2019.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 3. BONDS PAYABLE**

The District's outstanding bonds are described as follows:

	Series 2011	Refunding Series 2013	Series 2014
Amounts Outstanding – September 30, 2019	\$1,260,000	\$2,552,457	\$7,050,000
Interest Rates	4.75% - 5.50%	4.25% - 5.00%	2.25% - 4.00%
Maturity Dates - Serially Beginning/Ending	August 15, 2020/2036	August 15, 2020/2033	August 15, 2020/2039
Interest Payment Dates	February 15/ August 15	February 15/ August 15	February 15/ August 15
Callable Dates	August 15, 2020*	August 15, 2020*	August 15, 2022*

	Refunding Series 2015	Series 2015	Series 2016
Amounts Outstanding – September 30, 2019	\$2,365,229	\$4,490,000	\$5,405,000
Interest Rates	2.00% - 3.20%	2.50% - 4.00%	1.60% - 3.50%
Maturity Dates - Serially Beginning/Ending	August 15, 2020/2034	August 15, 2020/2040	August 15, 2020/2041
Interest Payment Dates	February 15/ August 15	February 15/ August 15	February 15/ August 15
Callable Dates	August 15, 2022*	August 15, 2022*	August 15, 2023*

\* Or on any date thereafter, at a price of par plus accrued interest to the date of redemption. The Series 2011 term bonds maturing on August 15, 2023, 2030 and 2036, are subject to mandatory redemption beginning August 15, 2022, 2026 and 2031, respectively. The Series 2013R term bonds maturing on August 15, 2026, 2028, 2030 and 2033, are subject to mandatory redemption beginning August 15, 2025, 2027, 2029 and 2031, respectively. The Series 2014 term bonds maturing on August 15, 2028, 2036 and 2039 are subject to mandatory redemption beginning August 15, 2027, 2035 and 2037, respectively. The Series 2015 term bonds maturing on August 15, 2026, 2028, 2030, 2038 and 2040 are subject to mandatory redemption beginning August 15, 2025, 2027, 2029, 2037 and 2039, respectively. The Series 2016 term bonds maturing August 15, 2025, 2027, 2030, 2033 and 2041 are subject to mandatory redemption beginning August 15, 2024, 2026, 2028, 2031 and 2040, respectively.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 3. BONDS PAYABLE (Continued)**

	<u>Series 2018</u>	<u>Series 2019</u>
Amounts Outstanding – September 30, 2019	\$6,500,000	\$6,830,000
Interest Rates	3.00% - 3.375%	2.00% - 3.25%
Maturity Dates - Serially Beginning/Ending	August 15, 2020/2042	August 15, 2020/2043
Interest Payment Dates	February 15/ August 15	February 15/ August 15
Callable Dates	August 15, 2024**	August 15, 2024**

\*\* Or on any date thereafter, at a price of par plus accrued interest to the date of redemption. The Series 2018 term bonds maturing August 15, 2030, 2039 and 2042 are subject to mandatory redemption beginning August 15, 2028, 2038 and 2040, respectively

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

	<u>October 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2019</u>
Bonds Payable	\$ 30,255,223	\$ 7,580,000	\$ 1,382,537	\$ 36,452,686
Bond Discount	(7,569)	(24,588)	(740)	(31,417)
Bonds Payable, Net	<u>\$ 30,247,654</u>	<u>\$ 7,555,412</u>	<u>\$ 1,381,797</u>	<u>\$ 36,421,269</u>
		Amounts Due Within One Year		\$ 1,791,329
		Amounts Due After One Year		<u>34,629,940</u>
		Bonds Payable, Net		<u>\$ 36,421,269</u>

On April 30, 2019, the District issued \$7,580,000 of Series 2019 Unlimited Tax and Revenue Bonds (the "Bonds") with interest rates ranging from 2.00% to 3.25%. The net proceeds of \$6,986,640 (after payment of \$593,360 in underwriter's fees, insurance, and bond issuance costs) were used as follows: \$4,929,562 was paid to the Developer for reimbursement of construction of water, wastewater and drainage facilities to serve the District, and the remaining portion was deposited in the District's investment accounts to finance (i) District cost of the acquisition of land and the construction of water, wastewater and drainage facilities to serve the District and (ii) finance subsequent costs related to the issuance of the Bonds.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 3. BONDS PAYABLE (Continued)**

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

Fiscal Year	Principal	Interest	Total
2020	\$ 1,791,329	\$ 1,453,033	\$ 3,244,362
2021	895,784	1,579,502	2,475,286
2022	885,350	1,562,487	2,447,837
2023	925,158	1,533,329	2,458,487
2024	1,130,065	1,337,496	2,467,561
2025-2029	7,680,000	4,795,016	12,475,016
2030-2034	9,175,000	3,377,506	12,552,506
2035-2039	9,765,000	1,749,953	11,514,953
2040-2043	4,205,000	282,182	4,487,182
	<u>\$ 36,452,686</u>	<u>\$ 17,670,504</u>	<u>\$ 54,123,190</u>

A portion of the Series 2013 and Series 2015 Unlimited Tax and Revenue Refunding Bonds are capital appreciation bonds, commonly referred to as "premium compound interest bonds". These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The interest shown above includes the interest to be paid on the bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years. 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. At September 30, 2019, accreted interest payable on these premium compound interest bonds totaled \$1,567,964.

As of September 30, 2019, the District has authorized but unissued unlimited tax bonds in the amount of \$30,715,000 which can be issued for water, sewer and drainage facilities. The District may also issue refunding bonds. 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.

During the year ended September 30, 2019, the District levied an ad valorem debt service tax rate of \$0.8279 per \$100 of assessed valuation, which resulted in a tax levy of \$2,810,506 on the adjusted taxable valuation of \$339,370,348 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.



**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 3. BONDS PAYABLE (Continued)**

The District's tax calendar is as follows:

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

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

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

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

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$3,655,088 and the bank balance was \$3,663,121. Of the bank balance, \$3,148,009 was covered by federal depository insurance and the remaining balance was covered by collateral pledged in the name of the District and held in a third-party depository.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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

Deposits (Continued)

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 777,962	\$ 1,700,000	\$ 2,477,962
DEBT SERVICE FUND		1,160,000	1,160,000
CAPITAL PROJECTS FUND	17,126		17,126
<b>TOTAL DEPOSITS</b>	<b>\$ 795,088</b>	<b>\$ 2,860,000</b>	<b>\$ 3,655,088</b>

Investments

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

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

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

The District's certificates of deposits are stated at amortized cost in accordance with GASB Statement No. 31.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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

Investments (Continued)

As of September 30, 2019, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 736,000	\$ 736,000
Certificates of Deposit	1,700,000	1,700,000
<u>DEBT SERVICE FUND</u>		
TexPool	1,362,590	1,362,590
Certificates of Deposit	1,160,000	1,160,000
<u>CAPITAL PROJECTS FUND</u>		
TexPool	1,463,707	1,463,707
<b>TOTAL INVESTMENTS</b>	<u>\$ 6,422,297</u>	<u>\$ 6,422,297</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, the District's investment in TexPool was rated AAAM by Standard & Poor's Rating Agency. The District also manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

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

Restrictions

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

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 6. CAPITAL ASSETS**

As of September 30, 2019, the District had the following capital assets:

	October 1, 2018	Increases	Decreases	September 30, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 240,876	\$ 176,141	\$ -0-	\$ 417,017
Construction in Progress	1,107,327	212,847	1,111,034	209,140
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 1,348,203</b>	<b>\$ 388,988</b>	<b>\$ 1,111,034</b>	<b>\$ 626,157</b>
<b>Assets Subject to Depreciation</b>				
Water and Wastewater System	\$ 30,984,820	\$ 6,333,687	\$ -0-	\$ 37,318,507
Office Building	465,000			465,000
Pool & Clubhouse	619,858	23,400		643,258
Furniture, Fixtures and Equipment	37,655	17,075		54,730
<b>Total Capital Assets Subject to Depreciation</b>	<b>\$ 32,107,333</b>	<b>\$ 6,374,162</b>	<b>\$ -0-</b>	<b>\$ 38,481,495</b>
<b>Accumulated Depreciation</b>				
Water and Wastewater System	\$ 2,745,510	\$ 705,184	\$ -0-	\$ 3,450,694
Office Building	124,043	15,500		139,543
Pool & Clubhouse	181,987	41,130		223,117
Furniture, Fixtures and Equipment	30,135	5,417		35,552
<b>Total Accumulated Depreciation</b>	<b>\$ 3,081,675</b>	<b>\$ 767,231</b>	<b>\$ -0-</b>	<b>\$ 3,848,906</b>
<b>Total Amortizable Assets, Net of Accumulated Depreciation</b>	<b>\$ 29,025,658</b>	<b>\$ 5,606,931</b>	<b>\$ -0-</b>	<b>\$ 34,632,589</b>
<b>Total Assets, Net of Accumulated Depreciation</b>	<b>\$ 30,373,861</b>	<b>\$ 5,995,919</b>	<b>\$ 1,111,034</b>	<b>\$ 35,258,746</b>

**NOTE 7. MAINTENANCE TAX**

On November 8, 2005, the voters of the District approved the levy and collection of a maintenance tax. The Williamson Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 17, 2018.

During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.1196 per \$100 of assessed valuation, which resulted in a tax levy of \$406,011 on the adjusted taxable valuation of \$339,370,348 for the 2018 tax year.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**NOTE 8. GROUNDWATER SUPPLY CONTRACT**

On June 16, 2005 LSARGP, LLC, and Sonterra Development LLC entered into a Lease of Right to Pump and Use Groundwater (the "Groundwater Lease") granting Sonterra Development LLC the right to pump and use groundwater from certain property owned by LSARGP, LLC. Sonterra Development LLC subsequently assigned its rights, as lessee, under the Groundwater Lease, to the District.

By Amendment No. 1 to Lease of Right to Pump and Use Groundwater dated effective May 19, 2008, LSARGP, LLC and the District amended the Groundwater Lease to, among other things, add additional acreage to the property subject to and extend the term of the Groundwater Lease. In exchange for the right to access the surface of LSARGP's property to drill, operate and maintain wells on the property and to produce groundwater from the property, the District agreed to pay LSARGP quarterly lease payments based on the greater of (i) the actual amount of groundwater pumped from the wells or (ii) the minimum annual amount lease payments provided in the table below. The term of the Groundwater Lease began September 1, 2005 and extends for a period of forty years through December 31, 2045. During the year ended September 30, 2019, the District paid LSARGP \$184,635 for groundwater pumped from the wells on LSARGP's property. As of September 30, 2019, the future minimum payment requirements related to the groundwater lease were as follows:

Fiscal Year	Payment
2020	\$ 7,500
2021	8,000
2022	8,000
2023	8,000
2024	8,000
2025-2029	43,000
2030-2034	54,125
2035-2039	59,375
2040-2044	61,875
2045-2046	15,625
	<u>\$ 273,500</u>

**NOTE 9. WASTEWATER SERVICE AGREEMENT**

Effective December 23, 2008, the District entered into an Agreement for Wholesale Wastewater Service (the "Wastewater Agreement") with the City of Jarrell. The Wastewater Agreement has been amended by First Amendment to the Agreement for Wholesale Wastewater Service dated effective September 23, 2009, Second Amendment to Agreement for Wholesale Wastewater Service dated effective as of November 23, 2009, Third Amendment to Agreement for Wholesale Wastewater Service dated effective as of February 20, 2018, and Fourth Amendment to Agreement for Wholesale Wastewater Service dated effective as of July 25, 2019.

**SONTERRA MUNICIPAL UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**NOTE 9. WASTEWATER SERVICE AGREEMENT (continued) -**

In accordance with the Wastewater Agreement, as amended, the City has committed to accept and treat up to 3,000,000 gallons per day of wastewater from development within the District. Under the Wastewater Agreement, as amended, the District pays the City a one-time wastewater treatment access fee, currently \$1,720 per living unit equivalent, and a monthly volume charge, currently \$7.60 per 1,000 gallons. Prior to October 2019, monthly volume charges were calculated based on metered wastewater flows, but the monthly volume charges are now calculated based on winter-average water usage within the District, in accordance with the Fourth Amendment. During the current fiscal year, the District paid the City \$861,456 for volume charges in relation to actual wastewater flows.

**NOTE 10. WATER SUPPLY AND FACILITIES FINANCING CONTRACT – LONE STAR REGIONAL WATER AUTHORITY**

Water Supply Agreement

On September 1, 2015, the District entered into a Water Supply Agreement with the Lone Star Regional Water Authority (the “Authority”), the City of Jarrell (the “City”), and Jarrell-Schwertner Water Supply Corporation (“JSWSC”) for the purchase and delivery of treated water obtained by the Authority from the Brazos River Authority’s (the “BRA”) Granger Lake Treatment Facility pursuant to a Water Supply Agreement with the BRA (the “BRA Contract”) under which the BRA agreed to provide treated water to the Authority. The Water Supply Agreement has been amended by a First Amendment to Water Supply Agreement dated effective March 18, 2019. Under the Water Supply Agreement, as amended, the District, the City and JSWSC (the “Participants”) share in the fixed operating costs of the Authority based on each participant’s percentage of shared capacity on an annual basis. In addition, on a monthly basis, each Participant is to pay water supply expenses to the Authority based on its proportionate share of the minimum annual payment payable by the Authority to the BRA for the minimum amount of treated water required to be taken by the Authority under the BRA Contract plus the charge for any water delivered to it in excess of its proportionate share. The Authority agrees to deliver treated water from BRA to the Participants up to the maximum quantities under the amended pro rata capacity allocations as follows:

The District	5.7 MGD	54.2857%
City of Jarrell	3.3 MGD	31.4286%
Jarrell-Schwertner Water Supply Corporation	1.5 MGD	14.2857%

Currently, the District is not receiving treated water from the Authority but anticipates beginning to receive treated water in fiscal year 2020.

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 10. WATER SUPPLY AND FACILITIES FINANCING CONTRACT - LONE STAR REGIONAL WATER AUTHORITY (continued) -**

Water Facilities Acquisition, Construction and Financing Contract

On September 1, 2015, the District entered into a Water Facilities Acquisition, Construction and Financing Contract (the "Water Facilities Financing Contract") with the Authority to facilitate the acquisition, by purchase and construction, of certain water system facilities to render wholesale water services to the District pursuant to the above mentioned Water Supply Agreement. The Water Facilities Financing Contract was amended by First Amendment to the Water Facilities Acquisition, Construction and Financing Contract dated effective March 18, 2019. Under the Water Facilities Financing Contract, the Authority has issued bonds to construct the East Williamson County Regional Water Transmission System (the "Project") to supply treated water to the District, the City of Jarrell and JSWSC. The District, along with the City of Jarrell and JSWSC, are obligated under the Water Facilities Financing Contract to share in principal and interest payments due on the bonds issued by the Authority specific to the acquisition, construction and financing of the Project pursuant to the pro rata capacity allocations noted above. In exchange, the District and other participants in the Water Facilities Financing Contract have a right to receive water service from the Authority as noted above pursuant to the Water Supply Agreement. At September 30, 2019, the District has recognized an intangible asset of \$31,332,587, which corresponds to its outstanding facility financing obligation noted below.

At September 30, 2019, the Authority has \$29,000,000 of bond principal outstanding related to the Project. For the year ended September 30, 2019, the District paid \$275,406 to the Authority for its proportionate share of principal and interest payments due on the Project bonds. As of September 30, 2019, the District's future facility financing (debt service) obligations due to the Authority for the Project bonds under the Water Facilities Financing Contract are as follows:

Fiscal Year	5.7 MGD Pro Rata Share
2020	\$ 300,245
2021	348,677
2022	402,326
2023	475,089
2024	553,072
2025-2029	3,863,138
2030-2034	5,712,178
2035-2039	6,260,219
2040-2044	6,394,207
2045-2049	5,937,578
2050	1,085,858
	<u>\$ 31,332,587</u>



**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 11. DEBT PAYABLE – LONE STAR REGIONAL WATER AUTHORITY**

On June 1, 2015, the District entered into a Water System Facilities Installment Sale Contract (the “LSRWA Facilities Contract”) with the Authority whereby the Authority agreed to sell \$3,165,000 in Contract Revenue Bonds and make those proceeds, net of issuance costs, available to the District for its use to acquire, by purchase and construction, certain water storage and transmission facilities to serve the District. Under the terms of the LSRWA Facilities Contract, the District will own the facilities once they are completed and placed into service. In exchange, the District has agreed to make all debt service payments required to repay the bonds. To secure this obligation, the District has pledged all of the gross revenues derived from the operation of its waterworks and sanitary sewer utility system. In the event such gross revenues are not sufficient for making the required payments, the District is obligated to make such payments from other sources of its General Fund.

During the year ended September 30, 2019, the District paid the Authority \$200,738 in principal and interest payments on the outstanding debt, of which \$90,000 was for principal and \$110,738 was for interest.

As of September 30, 2019, the debt service requirements related to the LSRWA Facilities Contract were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 90,000	\$ 108,938	\$ 198,938
2021	95,000	106,238	201,238
2022	100,000	103,388	203,388
2023	100,000	100,388	200,388
2024	105,000	97,388	202,388
2025-2029	580,000	424,390	1,004,390
2030-2034	700,000	306,675	1,006,675
2035-2039	850,000	151,726	1,001,726
2040	190,000	8,075	198,075
	<u>\$ 2,810,000</u>	<u>\$ 1,407,206</u>	<u>\$ 4,217,206</u>

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 12. LEASE OF OFFICE SPACE**

In August 2018, the District entered into an agreement to lease 2,500 square feet of office space to the Jarrell Library. The term of the lease agreement is 36 months ending August 31, 2021, and both rent and the library's pro rata share of operating and maintenance expenses of the office space are due monthly to the District. The District, due to the structure of the rental payments in the lease agreement, did not recognize any rental income during the year ended September 30, 2019. Future rental income per this agreement is as follows:

Fiscal Year	Principal
2020	\$ 834
2021	9,174
	\$ 10,008

**NOTE 13. CAPITAL LEASES**

On November 1, 2010, the District entered into a lease purchase agreement to facilitate the purchase of an office building at a purchase price of \$465,000. Under the agreement, the District has agreed to pay equal monthly installments of \$2,788, representing both principal and interest, over a period of thirty years to acquire the office building.

On June 1, 2011 (as amended on September 11, 2017), the District entered into a lease purchase agreement to facilitate the purchase of a pool at a purchase price of \$350,000. Under the agreement, the District has agreed to pay equal monthly installments of \$2,714, representing both principal and interest, through July 8, 2024 at which point all unpaid principal and interest is due in a lump-sum payment of \$182,874.

During the year ended September 30, 2019, the District made capital lease principal and interest payments totaling \$66,018. As of September 30, 2019, the future payment requirements related to the capital leases were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 24,441	\$ 41,576	\$ 66,017
2021	26,105	39,913	66,018
2022	27,882	38,135	66,017
2023	29,781	36,236	66,017
2024	208,636	32,115	240,751
2025-2029	74,285	92,990	167,275
2030-2034	100,199	67,076	167,275
2035-2039	135,153	32,122	167,275
2040-2041	35,005	1,237	36,242
	\$ 661,487	\$ 381,400	\$ 1,042,887

**SONTERRA MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 14. RISK MANAGEMENT**

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

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

**NOTE 15. SUBSEQUENT EVENT**

On October 21, 2019, the District's Board of Directors authorized reimbursement of \$138,179.90 to the developer for land acquisition and carrying costs previously held back from the Series 2019 bond proceeds subject to receipt of the required closing documents. These funds are currently being held by the District pending completion of the land purchase transaction.

**NOTE 16. PENDING BOND APPLICATION**

On June 17, 2019, the District's Board of Directors passed a resolution authorizing application to the Commission for approval of bonds in the principal amount of \$14,535,000 to reimburse the developer for the construction of water, wastewater and drainage facilities to serve the District. At this time, the order approving the project and issuance of \$14,535,000 in bonds has not been received from the Commission.

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**APPENDIX B**

FORM OF BOND COUNSEL'S OPINION

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

**SONTERRA MUNICIPAL UTILITY DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,764,996.90**

**AS BOND COUNSEL FOR THE SONTERRA MUNICIPAL UTILITY DISTRICT** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on March 24, 2020, authorizing the issuance of the Bonds and the pricing certificate executed by the pricing officer as authorized in the order (collectively, the "Order").

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

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

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



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

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

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

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





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

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

Respectfully,

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**APPENDIX C**

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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





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