

OFFICIAL STATEMENT DATED JUNE 4, 2020

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

NEW ISSUE-Book-Entry-Only

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

\$8,540,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 173
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 173 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

Interest Accrues from: July 1, 2020

Due: October 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from July 1, 2020, and is payable each October 1 and April 1, commencing October 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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 "BOOK-ENTRY-ONLY SYSTEM."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under separate municipal bond insurance policies to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (October 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)	Due (October 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)
2021	\$ 15,000	4.000 %	0.970 %	413944 FJ3	2027	\$ 1,005,000 (b)	3.000 %	1.460 %	413944 FQ7
2022	15,000	4.000	1.000	413944 FK0	2028	1,040,000 (b)	2.000	1.700	413944 FR5
2023	840,000	4.000	1.000	413944 FL8	2029	925,000 (b)	2.000	1.770	413944 FS3
2024	875,000	4.000	1.080	413944 FM6	2030	960,000 (b)	2.000	1.870	413944 FT1
2025	920,000	4.000	1.160	413944 FN4	2031	985,000 (b)	2.000	1.970	413944 FU8
2026	960,000	4.000	1.300	413944 FP9					

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. Accrued interest from July 1, 2020 is to be added to the price.
- (b) Bonds maturing on or after October 1, 2027 are subject to redemption prior to maturity at the option of the District, in whole or, from time to time in part, on October 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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

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 Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds through DTC is expected on or about July 7, 2020.

SAMCO Capital

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 upon payment of the costs for duplication thereof.

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 condition of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter of the Bonds, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$9,080,791.44 (representing the par amount of the Bonds of \$8,540,000.00, plus a premium on the Bonds of \$605,646.60, less an Underwriter’s discount of \$64,855.16) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information and financial statements 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 only in conjunction with more complete information contained herein.

THE DISTRICT

Description..... Harris County Municipal Utility District No. 173 (the “District”), located in Harris County, Texas, is a governmental agency and a political subdivision of the State of Texas. The District was created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission” or the “TCEQ”), by an order dated August 15, 1984 pursuant to Article XVI, Section 59 of the Texas Constitution, and operates pursuant to Chapters 49 and 54, Texas Water Code and other general statutes of Texas applicable to municipal utility districts. The District, is subject to the continuing supervisory jurisdiction of the Commission. The District contains approximately 464 acres.

LocationThe District is located in northwest Harris County, approximately 22 miles northwest of downtown Houston. The District is located approximately 7 miles north of Interstate 10 and approximately 2 miles west of State Highway 6. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Cypress Fairbanks Independent School District.

Infectious Disease Outlook

(COVID-19).....The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

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.

Recent Extreme Weather Events

Hurricane Harvey.....The greater Houston area, including the District, has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to Municipal District Services, LLC the District’s utility system operator, the District’s water, sewer and drainage system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial properties within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Status of Development.....Land within the District has been developed primarily for single-family residential usage. The development of 1,291 single-family residential lots on approximately 353 acres is complete in Copper Lakes, Sections 1 through 11 and Lone Oak Village, Sections 1 through 5. As of April 22, 2020, there were 1,270 completed and occupied homes, 11 vacant completed homes and 1 home listed in a builder’s name.

There are approximately 30 acres of land in the District which have been developed for commercial purposes. Commercial improvements have been constructed on approximately 26 of such acres, including a Wal-Mart Neighborhood Market, the Plazas at Barker Cypress shopping center (approximately 25,200 square feet), Woodforest National Bank, Walgreens drugstore, Valero Service Station, two daycare facilities, a dentist office, an assisted living facility and a Montessori school.

Cypress 1999, Ltd. owns approximately 12 acres of land located in the District that is expected to be developed for future commercial usage, but is currently undeveloped.

There are approximately 69 acres of land in the District that are undevelopable (including parks, plant sites and drainage easements). See “THE DISTRICT” and “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Payment Record.....The District has previously issued six series of unlimited tax bonds, one series of unlimited tax park bonds, and five series of unlimited tax refunding bonds, of which a total of \$15,720,000 in principal amount is outstanding as of the date hereof (the “Outstanding Bonds”).

THE BONDS

The IssueHarris County Municipal Utility District No. 173 \$8,540,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) dated July 1, 2020. The Bonds mature serially on October 1 in each year from 2021 through 2031, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page. Interest on the Bonds accrues from July 1, 2020 and will be payable on October 1 and April 1 of each year commencing on October 1, 2020 (three months interest) until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

RedemptionBonds maturing on October 1, 2027 and thereafter are subject to redemption, in whole or, from time to time in part, at the option of the District, prior to their maturity date, on October 1, 2026 or any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. If less than all of the Bonds of a given maturity are to be redeemed, the particular Bonds to be redeemed shall be selected on behalf of the District by the Paying Agent/Registrar by random method (or while the Bonds are in Book-Entry-Only form, by DTC in accordance with its procedures). See “THE BONDS—Redemption Provisions.”

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

Use of Proceeds Proceeds from the sale of the Bonds, together with legally available funds of the District, will be used to refund and defease \$8,760,000 principal amount of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

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 all taxable property within the District as described herein. The Bonds are obligations of the District and are not obligations of Harris County, the City of Houston, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”

Municipal Bond Insurance and Municipal

Bond Rating It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign municipal bond ratings of “AA” (stable outlook) to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. S&P Global Ratings has also assigned an underlying rating of “A-” to the Bonds. An explanation of the ratings may be obtained from S&P. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

Qualified Tax-Exempt Obligations.....

In the Bond Order, the District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See “TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions.”

Bond Counsel Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas.

Financial Advisor Masterson Advisors LLC, Houston, Texas.

Underwriter’s Counsel..... McCall Parkhurst & Horton, L.L.P., Houston, Texas.

Verification Agent Public Finance Partners LLC, Minneapolis, Minnesota.

Paying Agent/Registrar.... The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Escrow Agent The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Investment

Considerations The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$377,093,466 (a)
2020 Preliminary Taxable Assessed Valuation.....	\$381,860,294 (b)
Gross Direct Long-Term Debt Outstanding.....	\$15,500,000 (c)
Estimated Overlapping Debt.....	<u>22,453,818 (d)</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt.....	37,953,818
Ratios of Gross Direct Long-Term Debt to	
2019 Certified Taxable Assessed Valuation.....	4.11%
2020 Preliminary Taxable Assessed Valuation.....	4.06%
Ratios of Gross Direct Long-Term Debt and Overlapping Debt to	
2019 Certified Taxable Assessed Valuation.....	10.06%
2020 Preliminary Taxable Assessed Valuation.....	9.94%
Debt Service Fund Balance as of May 12, 2020.....	\$2,192,937 (e)
Operating Fund Balance as of May 12, 2020.....	\$3,705,902
Construction Fund Balance as of May 12, 2020.....	\$1,221,614
2019 Debt Service Tax Rate.....	\$0.3315
2019 Maintenance Tax Rate.....	<u>0.1635</u>
2019 Total Tax Rate.....	\$0.4950
Average Annual Debt Service Requirement (2020-2036).....	\$1,160,116 (c,f)
Maximum Annual Debt Service Requirement (2028).....	\$1,266,774 (c,f)
Tax Rate Required to Pay Average Annual Debt Service (2020-2036) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$0.33 /\$100 A.V.
Based upon 2020 Preliminary Taxable Assessed Valuation.....	\$0.32 /\$100 A.V.
Tax Rate Required to Pay Maximum Annual Debt Service (2028) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$0.36 /\$100 A.V.
Based upon 2020 Preliminary Taxable Assessed Valuation.....	\$0.35 /\$100 A.V.
Water and Sewer Connections as of April 22, 2020 (f):	
Completed Homes – Occupied.....	1,270
Completed Homes – Vacant.....	11
Commercial Connections.....	15
Estimated 2020 Population.....	4,445 (h)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020), including personal property value from tax year 2019 in the amount of \$9,327,036. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."
- (c) After issuance of the Bonds.
- (d) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (e) Unaudited. The District is not required to maintain a particular fund balance. In addition to the balances shown, accrued interest on the Bonds from their dated date to the date of delivery will be deposited in the Debt Service Fund. The District will contribute \$60,000 of such balance towards the Bonds.
- (f) See "DEBT SERVICE REQUIREMENTS."
- (g) See "STATUS OF DEVELOPMENT IN THE DISTRICT."
- (h) Based upon 3.5 persons per occupied residence.

OFFICIAL STATEMENT

\$8,540,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 173
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS, SERIES 2020

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 173 (the “District”) of its \$8,540,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”) and an election held within the District. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt.”

This OFFICIAL STATEMENT includes descriptions of, among other things, the Bonds and the Bond Order, and certain other information about the District and the development activity within 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 the District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 (“Bond Counsel”) upon payment of the costs of duplication thereof.

PLAN OF FINANCING

Purpose

The District currently has \$15,720,000 principal amount of its bonds outstanding (the “Outstanding Bonds”). The proceeds of the Bonds, together with legally available funds of the District, will be used to refund and defease portions of the Unlimited Tax Refunding Bonds, Series 2012 and the Unlimited Tax Refunding Bonds, Series 2013, totaling \$8,760,000 principal amount (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds.” A total of \$6,960,000 principal amount of the District’s Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Outstanding Bonds” and “—Sources and Uses of Funds” below.

Outstanding Bonds

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

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
Unlimited Tax Refunding Bonds, Series 2010	\$ 1,610,000	\$ 760,000		\$ 760,000
Unlimited Tax Refunding Bonds, Series 2012	7,300,000	7,160,000	\$ 5,575,000	1,585,000
Unlimited Tax Refunding Bonds, Series 2013	3,290,000	3,200,000	3,185,000	15,000
Unlimited Tax Park Bonds, Series 2017A	1,700,000	1,700,000		1,700,000
Unlimited Tax Bonds, Series 2017	2,900,000	2,900,000		2,900,000
Total	<u>\$ 16,800,000</u>	<u>\$ 15,720,000</u>	<u>\$ 8,760,000</u>	<u>\$ 6,960,000</u>
The Bonds				<u>8,540,000</u>
The Bonds and Remaining Outstanding Bonds				<u>\$ 15,500,000</u>

Refunded Bonds

Proceeds of the Bonds, together with other lawfully available funds of the District, will be applied to refund and defease \$8,760,000 principal amount of the Refunded Bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below:

Maturity Date <u>October 1</u>	Series <u>2012</u>	Series <u>2013</u>
2021		\$ 20,000
2022		20,000
2023	\$ 825,000	20,000
2024	860,000	20,000
2025	905,000	20,000
2026	945,000	20,000
2027	995,000	20,000
2028	1,045,000	20,000
2029	-	965,000
2030	-	1,010,000
2031	-	1,050,000
	<u>\$ 5,575,000</u>	<u>\$ 3,185,000</u>
Redemption Date:	10/1/2020	10/1/2020

Escrow Agreement

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as Escrow Agent for the Refunded Bonds.

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be July 7, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other lawfully available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Defeasance of the Refunded Bonds

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

Sources and Uses of Funds

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

Sources of Funds:	
Principal Amount of the Bonds	\$8,540,000.00
Plus: Premium on the Bonds.....	605,646.60
Plus: Transfer from Debt Service Fund	60,000.00
Total Sources of Funds.....	<u>\$9,205,646.60</u>
Uses of Funds:	
Deposit to Escrow Fund	\$8,917,784.11
Issuance Expenses and Underwriters’ Discount (a).....	287,862.49
Total Uses of Funds.....	<u>\$9,205,646.60</u>

(a) Includes municipal bond insurance premium.

DEBT SERVICE REQUIREMENTS

The following table sets forth the actual debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$8,760,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 1,335,143	\$ 160,516		\$ 63,338	\$ 63,338	\$ 1,237,964
2021	1,306,555	341,031	\$ 15,000	253,350	268,350	1,233,874
2022	1,307,830	340,406	15,000	252,750	267,750	1,235,174
2023	1,313,355	1,164,781	840,000	252,150	1,092,150	1,240,724
2024	1,318,855	1,170,281	875,000	218,550	1,093,550	1,242,124
2025	1,328,830	1,180,256	920,000	183,550	1,103,550	1,252,124
2026	1,332,005	1,183,431	960,000	146,750	1,106,750	1,255,324
2027	1,343,580	1,195,006	1,005,000	108,350	1,113,350	1,261,924
2028	1,353,155	1,204,581	1,040,000	78,200	1,118,200	1,266,774
2029	1,210,730	1,062,156	925,000	57,400	982,400	1,130,974
2030	1,225,574	1,077,000	960,000	38,900	998,900	1,147,474
2031	1,234,011	1,085,438	985,000	19,700	1,004,700	1,153,274
2032	988,574	-	-	-	-	988,574
2033	1,002,599	-	-	-	-	1,002,599
2034	1,014,693	-	-	-	-	1,014,693
2035	1,024,793	-	-	-	-	1,024,793
2036	1,033,593	-	-	-	-	1,033,593
Total	\$ 20,673,873	\$ 11,164,884	\$ 8,540,000	\$ 1,672,988	\$ 10,212,988	\$ 19,721,976

Maximum Annual Debt Service Requirement (2028)..... \$1,266,774
Average Annual Debt Service Requirement (2020-2036) \$1,160,116

THE BONDS

General

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board authorizing the issuance and sale of the Bonds. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

Description of the Bonds

The Bonds are dated July 1, 2020, and mature on October 1 in each of the years and in the principal amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on October 1 and April 1, commencing October 1, 2020 (three months interest). The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” herein.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds will be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners (“Registered Owners”) as shown on the bond register (the “Register”) kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

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

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

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

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

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

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

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

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 (or the Trustee on behalf thereof) 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).

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

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 Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered only in the name of Cede & Co and held by DTC. See "Book-Entry-Only System."

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is 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 therefore 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 of Texas 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.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the District and Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Paying Agent/Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become payable, the District in its discretion may, instead of issuing a replacement Bond, authorize the Paying Agent/Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section 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 replacement Bond is delivered.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas. In the Bond Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after October 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on October 1, 2026, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular 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 Bonds are in book-entry-only form).

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

Source of Payment

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

The Bonds are obligations solely of the District and are not obligations of Harris County, Texas, the City of Houston, the State of Texas or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Debt Service Fund. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Remaining Outstanding Bonds, and any of the District's duly authorized additional bonds, together with interest thereon, as such becomes due. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds, and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. Any monies remaining after the deposit into the Escrow Account and payment of issuance costs will be deposited into the Debt Service Fund.

Authority for Issuance and Issuance of Additional Debt

Voters have authorized the issuance of \$22,257,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District, of which \$21,004,406.48 will remain authorized for issuance after issuance of the Bonds.

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board") and an election held within the District.

The District's voters have authorized \$37,095,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a waterworks system, sanitary sewer system, drainage and storm sewer system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and administrative facilities needed in connection therewith, of which \$14,425,000 principal amount remains authorized but unissued. The District's voters also have authorized \$3,975,000 principal amount of unlimited tax bonds for the purpose of acquiring, owning, developing, constructing, improving, managing, maintaining, or operating, inside and outside the District's boundaries, any District recreational facilities needed to accomplish the purposes of the District authorized by the Texas Constitution, the Texas Water Code or any other law, including parks, landscaping, parkways, greenbelts, sidewalks, trails, public right-of-way beautification projects, recreational equipment and facilities, and associated street and security lighting, including, but not limited to, all additions to such facilities, interests in property, and contract rights needed therefor and administrative facilities needed in connection therewith, of which \$2,275,000 principal amount remains authorized but unissued. When the District issues bonds for park and recreational facilities, the outstanding principal amount of all such bonds may not exceed an amount equal to one percent (1%) of the assessed value of the taxable property in the District.

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

The District may issue its authorized but unissued bonds and any additional tax bonds voted in the future with the approval of the Commission, where applicable. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the Commission). Any additional bonds issued by the District may be on a parity with the Bonds.

Issuance of additional bonds or other subsequently authorized bonds could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

Financing Recreational Facilities

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

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

At an election held in the District, voters authorized \$3,975,000 principal amount of unlimited tax bonds for the purpose of constructing park and recreational facilities. The District has \$2,275,000 principal amount remaining authorization of unlimited tax bonds for the purpose of providing parks and recreational facilities.

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

Financing Road Facilities

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" nor calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

Defeasance

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

Annexation and Consolidation

The District is located wholly within the extraterritorial jurisdiction (“ETJ”) of the City of Houston, Texas (the “City”). The City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “Strategic Partnership Agreement,” below, for a description of the terms of the Strategic Partnership Agreement between the City and the District. If the City were to annex the District, the District would be abolished within ninety (90) days after annexation. If the District was annexed and abolished, the City would assume the assets, functions and obligations of the District (including the Bonds). No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments on the Bonds should annexation occur. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation that the City will ever attempt to annex the District and assume its debt.

The District has the legal authority and right to consolidate with other municipal utility districts and in connection therewith to provide for the consolidation of its assets, such as cash and its utility system, with the waterworks and sewer systems of the district(s) with which it is consolidating, as well as its liabilities, including the Bonds. The District has no current plans to exercise its right of consolidation. No representation is made concerning the ability of the consolidated district to make debt service payments on the Bonds and other outstanding obligations of the consolidated district should consolidation occur.

Strategic Partnership Agreement

The District and the City have entered into a Strategic Partnership Agreement (the “SPA”) pursuant to Chapter 43 of the Texas Local Government Code, effective December 20, 2007. The SPA provided for the “limited purpose annexation” for that portion of the District which has been or is expected to be developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City would not annex the District for “full purposes” for at least thirty (30) years.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Amendments

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

Registered Owners' Remedies

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

THE DISTRICT

General

The District, located in Harris County, Texas, was created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission" or the "TCEQ"), by an order dated August 15, 1984 pursuant to Article XVI, Section 59, Texas Constitution, and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervisory jurisdiction of the Commission. The District contains approximately 464 acres.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the Commission and certain limitations, develop and finance roads. See "THE BONDS Authority for Issuance and Issuance of Additional Debt," "Financing Road Facilities," and "Financing Recreational Facilities."

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

Description and Location

The District is located in northwest Harris County approximately 22 miles northwest of downtown Houston. The District is located approximately 7 miles north of Interstate 10 West and approximately 2 miles west of State Highway 6. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Cypress Fairbanks Independent School District. The District is a party to a Strategic Partnership Agreement with the City of Houston. See "THE BONDS—Strategic Partnership Agreement."

STATUS OF DEVELOPMENT IN THE DISTRICT

Residential Development

Land within the District has been developed primarily for single-family residential usage. The development of 1,291 single-family residential lots on approximately 353 acres is complete in Copper Lakes, Sections 1 through 11 and Lone Oak Village, Sections 1 through 5.

As of April 22, 2020, there were 1,270 completed and occupied homes, 11 vacant completed homes and 1 home listed in a builder's name.

Commercial Development

There are approximately 30 acres of land in the District which have been developed for commercial purposes. Commercial improvements have been constructed on approximately 26 of such acres, including a Wal-Mart Neighborhood Market, the Plazas at Barker Cypress shopping center (approximately 25,200 square feet), Woodforest National Bank, Walgreens drugstore, Valero Service Station, two daycare facilities, a dentist office, an assisted living facility, and a Montessori school.

Undeveloped Acreage

Cypress 1999, Ltd. owns approximately 12 acres of land located in the District that is expected to be developed for future commercial usage. There are approximately 69 acres that are undevelopable (including parks, plant sites and drainage easements).

MANAGEMENT OF THE DISTRICT

Directors and Officers

The District is governed by the Board, consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms, and elections are held in May in even numbered years only. All of the directors either reside or own 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>
David Tinney	President	May 2022
George Horton	Vice President	May 2022
Art Jansen	Secretary	May 2024
Richard A. Raymor	Assistant Secretary	May 2024
Chris Rowley	Assistant Vice President	May 2024

The District does not have a general manager or other employees, but the District contracts for certain necessary services as described below:

Tax Appraiser

The Harris County Appraisal District has the responsibility of appraising taxable property within Harris County, Texas, including property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector

Land, improvements and other taxable property in the District are appraised for taxation by the Harris County Appraisal District. The District contracts with Utility Tax Service, LLC to act as Tax Assessor/Collector for the District.

Engineer

The District's consulting engineer is Sander Engineering Corporation (the "Engineer").

Bookkeeper

The District has contracted with District Data Services, Inc. for bookkeeping services.

Utility System Operator

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

Auditor

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

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as the District's Financial Advisor. The fee for services rendered by Masterson Advisors LLC in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Bond Counsel/Attorney

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel to the District and as Bond Counsel in connection with the issuance of the Bonds.

THE SYSTEM

Regulation

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

Water Supply

The water supply system that currently serves the District includes an 800 gallons-per-minute ("gpm") well, 3,200 gpm booster pump capacity, 30,000 gallons of hydropneumatic tank capacity, and 920,000 gallons of ground storage tank capacity. The District also has facilities to enable it to receive surface water from the West Harris County Regional Water Authority (the "Authority") and began receiving surface water in July 2007. The District has emergency water interconnect agreements with Harris County Municipal Utility District Nos. 155 and 264. According to the District's Engineer, the capacity of the existing water supply facilities in conjunction with surface water supplied by the West Harris County Regional Water Authority is sufficient to serve 1,500 equivalent single-family connections ("esfcs"). See "Subsidence District Requirements" below.

Subsidence District Requirements

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 1999, the Texas legislature created the Authority to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP.

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

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

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

Wastewater Treatment System

Pursuant to an Agreement dated May 15, 1986, as amended, the District owns 390,120 gallons per day ("gpd") of capacity in the Harris County Municipal Utility District No. 155 ("MUD No. 155") regional wastewater treatment plant. According to the District's Engineer, such capacity is sufficient to provide service to 1,696 equivalent single-family connections ("esfc") based on 230 gpd per esfc.

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions and commercial development described under the section "STATUS OF DEVELOPMENT IN THE DISTRICT."

Flood Protection

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

Storm water drainage for the District is accomplished by a channel improvement and storm sewer system. Two drainage channels carry storm water from the District ultimately to Addicks Reservoir. According to the District's Engineer, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land located in the District indicates that no portion of the District is affected by the 100-year flood plain of any water course, except the aforementioned drainage channels.

Atlas 14

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

THE PARK SYSTEM

The park system includes landscaping and recreational improvements to serve the residential subdivisions within the District. Proceeds from the sale of a portion of the Remaining Outstanding Bonds were used to finance the design and construction of additional park and recreational facilities, including a splash pad, meeting room and parking improvements.

WATER AND SEWER OPERATIONS

General

The Bonds and Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended September 30, 2016 through 2019, and an unaudited summary for the period ended March 31, 2020, as provided by the District's bookkeeper. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended September 30,				
	10/1/2019 to 3/31/2020 (a)	2019	2018	2017	2016
REVENUES:					
Property Taxes	\$ 522,452	\$ 546,102	\$ 608,389	\$ 655,788	\$ 709,451
Water Service Revenue	167,692	343,273	384,664	368,084	345,040
Sewer Service Revenue	128,590	253,594	274,946	271,254	264,570
Regional Water Fee	227,867	543,029	542,125	500,247	438,375
City of Houston Rebates	21,413	64,772	63,434	53,908	61,769
Penalty & Interest	10,478	20,578	17,463	16,077	19,274
Tap Connection & Inspection Fees	32,720	2,565	94,900	3,635	66,092
Interest on Deposits	17,305	71,490	49,407	19,726	6,473
Other	7,802	12,943	15,630	9,261	104,710
TOTAL REVENUES	\$ 1,136,320	\$ 1,858,346	\$ 2,050,958	\$ 1,897,980	\$ 2,015,754
EXPENDITURES:					
Professional Fees	\$ 127,529	\$ 129,220	\$ 134,791	\$ 140,333	\$ 114,658
Purchased Services	92,581	659,739	686,624	702,272	597,090
Regional Water Fee	218,904	115,210	194,575	81,945	72,047
Contracted Services	64,819	201,904	212,256	204,447	194,595
Utilities	3,251	33,819	38,038	65,576	11,804
Repairs and Maintenance	127,639	253,569	230,011	228,769	308,060
Tap Connections	15,150	450	31,440	500	21,730
Capital Outlay	-	1,193,045	10,555	-	129,737
Parks and Recreation	780	26,748	66,080	285,224	90,185
Debt Issuance Costs	-	-	-	-	20,274
Other Expenditures	85,026	49,048	58,278	60,385	72,080
TOTAL EXPENDITURES	\$ 735,679	\$ 2,662,752	\$ 1,662,648	\$ 1,769,451	\$ 1,632,260
NET REVENUES	\$ 400,641	\$ (804,406)	\$ 388,310	\$ 128,529	\$ 383,494
OTHER FINANCING SOURCES (USES)					
Interfund Transfers in (out)	\$ -	\$ (22,312)	\$ 24,774	\$ -	\$ -
FUND BALANCE,					
BEGINNING OF PERIOD	\$ 2,869,220	\$ 3,695,938	\$ 3,282,854	\$ 3,154,325	\$ 2,770,831
FUND BALANCE, END OF PERIOD	\$ 3,269,861	\$ 2,869,220	\$ 3,695,938	\$ 3,282,854	\$ 3,154,325

(a) Unaudited. Provided by the Bookkeeper.

FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation	\$377,093,466	(a)
2020 Preliminary Taxable Assessed Valuation	\$381,860,294	(b)

District Debt

Outstanding Bonds (as of May 1, 2020).....	\$15,720,000
Less: the Refunded Bonds.....	8,760,000
Plus: the Bonds	<u>8,540,000</u>
Gross Debt Outstanding	\$15,500,000

Estimated Overlapping Debt	<u>\$22,453,818</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt.....	\$37,953,818

Ratios of Gross Debt to

2019 Certified Taxable Assessed Valuation.....	4.11%
2020 Preliminary Taxable Assessed Valuation.....	4.06%

Ratios of Gross Debt and Overlapping Debt to

2019 Certified Taxable Assessed Valuation.....	10.06%
202 Preliminary Taxable Assessed Valuation	9.94%

Area of District – 464 Acres
Estimated 2020 population – 4,445 (c)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020), including personal property value from tax year 2019 in the amount of \$9,327,036. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. See “TAXING PROCEDURES.”
- (c) Based upon 3.5 persons per occupied residence.

Cash and Investment Balances (unaudited as of May 12, 2020)

Debt Service Fund Balance as of May 12, 2020	\$2,192,937	(a)
Operating Fund Balance as of May 12, 2020	\$3,705,902	
Construction Fund Balance as of May 12, 2020.....	\$1,221,614	

- (a) Under Texas law, the District is not required to maintain a particular fund balance. The District will contribute \$60,000 towards the Bonds.

Investment Policies and Procedures

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own or intend to purchase long-term securities or derivative products.

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes of these overlapping political subdivisions is not included in these figures. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Debt	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,885,182,125	3/31/2020	0.08%	\$ 1,508,146
Harris County Flood Control District.....	83,075,000	3/31/2020	0.08%	66,460
Harris County Department of Education.....	6,320,000	3/31/2020	0.08%	5,056
Harris County Hospital District.....	55,005,000	3/31/2020	0.08%	44,004
Port of Houston Authority.....	572,569,397	3/31/2020	0.08%	458,056
Cypress Fairbanks Independent School District..	2,844,780,000	3/31/2020	0.68%	19,344,504
Lone Star College District.....	570,885,000	3/31/2020	0.18%	1,027,593
Total Estimated Overlapping Debt.....				\$ 22,453,818
The District's Total Direct Debt (a).....		Current		15,500,000
Total Direct and Estimated Overlapping Debt.....				\$ 37,953,818
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Taxable Assessed Valuation.....				10.06%
Ratio of Estimated Direct and Overlapping Debt to 2020 Preliminary Taxable Assessed Valuation.....				9.94%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2019

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 ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District’s tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see “ESTIMATED OVERLAPPING DEBT STATEMENT” above), 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 tax rates levied within the District for the 2019 tax year by all taxing jurisdictions, including the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy or charges imposed by entities other than political subdivisions.

<u>Overlapping Entity</u>	2019 Tax Rate per \$100 <u>Assessed Valuation</u>
Harris County (a)	\$ 0.616700
Cypress Fairbanks ISD	1.370000
Harris County ESD No. 9	0.059800
Lone Star College System	<u>0.107800</u>
Total Overlapping Amount	\$ 2.154300
The District	<u>0.495000</u>
Total Tax Rate	\$ 2.649300

(a) Includes Harris County, Harris County Hospital District, Harris County Flood Control District, Harris County Department of Education and Port of Houston Authority.

TAX DATA

Debt Service Tax

The Board will covenant in the Bond Order to levy and collect, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of the District's outstanding debt obligations, is adequate 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, upon authorization of the District's voters. At a maintenance tax election conducted January 16, 1993, voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 assessed valuation. The maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and the Remaining Outstanding Bonds.

Tax Rate Distribution

The following is the distribution of the District's total tax rate between debt service and maintenance taxes for the tax years 2015 through 2019.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.3315	\$ 0.3450	\$ 0.3500	\$ 0.3500	\$ 0.3500
Maintenance	<u>0.1635</u>	<u>0.1500</u>	<u>0.1700</u>	<u>0.1900</u>	<u>0.2200</u>
Total	\$ 0.4950	\$ 0.4950	\$ 0.5200	\$ 0.5400	\$ 0.5700

Historical Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of 4/30/2020 (a)	
				Amount	Percent
2015	\$ 323,163,436	\$ 0.570	\$ 1,842,032	\$ 1,841,861	99.99%
2016	345,133,326	0.540	1,863,720	1,862,569	99.94%
2017	358,648,434	0.520	1,864,972	1,861,494	99.81%
2018	362,022,546	0.495	1,792,012	1,787,930	99.77%
2019	377,093,466	0.495	1,866,500	1,752,153	93.87%

(a) Unaudited.

Taxes are due October 1 (or when billed, if later) and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

Tax Roll Information

The District's certified value as of January 1 of each year is used by the District in establishing its tax rate for the same year. See "TAXING PROCEDURES—Levy and Collection of Taxes." The following represents the type of property comprising the District's tax roll for the years 2015 through 2019. These values may differ slightly from values in other sections of the Official Statement due to different reporting dates. A breakdown of the 2020 Preliminary Taxable Assessed Valuation is not available.

	2019	2018	2017	2016	2015
Land	\$ 76,314,003	\$ 75,591,074	\$ 71,476,320	\$ 68,077,798	\$ 68,872,127
Improvements	327,496,764	313,677,518	313,557,158	302,527,863	279,264,081
Personal Property	9,327,036	7,930,247	10,066,397	9,970,488	9,511,839
Exemptions	(36,044,337)	(35,176,293)	(36,451,441)	(35,442,823)	(34,484,611)
Total	<u>\$ 377,093,466</u>	<u>\$ 362,022,546</u>	<u>\$ 358,648,434</u>	<u>\$ 345,133,326</u>	<u>\$ 323,163,436</u>

Principal Taxpayers

The following table represents the principal taxpayers for 2019, the type of property, the certified taxable assessed value of such property, and such property's assessed value as a percentage of the District's 2019 Certified Taxable Assessed Valuation of \$377,093,466. A principal taxpayer list related to the 2020 Preliminary Taxable Assessed Valuation is not available.

Taxpayer	Type of Property	% of	
		2019 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Heartis Cypress Partners LP	Land & Improvements	\$ 13,200,000	2.07%
Wal-Mart Real Estate Business Trust (a)	Land & Improvements	7,822,710	3.50%
Plaza at Barker Cypress Ltd.	Land & Improvements	5,828,998	1.55%
Cypress 1999 Ltd.	Land	3,582,472	0.95%
LAAK LLC	Land & Improvements	2,982,535	0.79%
Woodforest National Bank	Land, Improvements & Personal Property	2,792,327	0.74%
Rupani Properties LLC	Land & Improvements	2,760,899	0.73%
KPJV Cypress LLC	Land & Improvements	2,722,327	0.72%
Big Diamond Inc.	Land & Improvements	2,386,590	0.63%
Wal-Mart Neighborhood Market #US073576 (a)	Personal Property	2,320,964	0.62%
Total		<u>\$ 46,399,822</u>	<u>12.30%</u>

(a) Related Entities

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$377,093,466 and the 2020 Preliminary Taxable Assessed valuation of \$381,860,294 (see "Tax Roll Information" above). The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and Remaining Outstanding Bonds when due, assuming no further increase or 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.

Average Annual Debt Service Requirement (2020-2036)	\$1,160,116
\$0.33 Tax Rate on 2019 Certified Taxable Assessed Valuation @ 95% collections	\$1,182,188
\$0.32 Tax Rate on 2020 Preliminary Taxable Assessed Valuation @ 95% collections	\$1,160,855
Maximum Annual Debt Service Requirement (2028)	\$1,266,774
\$0.36 Tax Rate on 2019 Certified Taxable Assessed Valuation @ 95% collections	\$1,289,660
\$0.35 Tax Rate on 2020 Preliminary Taxable Assessed Valuation @ 95% collections	\$1,269,685

TAXING PROCEDURES

Authority to Levy Taxes

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

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here.

The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The District is responsible under current Texas law for the levy and collection of its taxes.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of \$5,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating

of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For tax year 2020, the District has granted a 10% general residential homestead exemption.

Freeport Goods Exemption and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2011 and prior years, and has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2012 and subsequent years.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the District, and the City of Houston, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine certain terms for its tax abatement agreements without regard to such 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. Generally, assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Tax Code permits land designated for agricultural or timber land use to be appraised at its value based on the land's capacity to produce agricultural products or, with respect to timber land, the value based upon accepted income capitalization methods. The Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural, timber land or residential real property appraisal must apply for such appraisal, and the Appraisal District is required to act on each claimant's application individually. If a claimant receives the agricultural or timber land appraisal on land and later changes the land use or sells the land to an unqualified owner, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the three years preceding the year in which the change of use occurs that the land was appraised as agricultural or timber land and the tax that would have been imposed had the land been taxed on the basis on market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. Provisions of the Tax Code are complex and are not fully summarized here.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of 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.

Reappraisal of Property

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

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 Tax Code. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or

omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Tax Payment Installments after Disaster

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

Rollback of Operations and Maintenance Tax

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

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

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

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

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

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See “ESTIMATED OVERLAPPING DEBT STATEMENT”. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; 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, among other collection methods available, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on homesteads as described above under “—Levy and Collection of Taxes.” 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 cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years for residential and agricultural property and within six (6) months for commercial and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See “INVESTMENT CONSIDERATIONS—Tax Collection Limitations”.

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outlook (COVID-19)

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values 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.

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

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to Municipal District Services, LLC, the District's utility system operator, the District's water, sewer and drainage system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial properties within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Taxable Assessed Valuation is \$377,093,466. See “SELECTED FINANCIAL INFORMATION”. After issuance of the Bonds, the maximum annual debt service requirement is estimated to be \$1,266,774 (2028), and the average annual debt service requirement is estimated to be \$1,160,116 (2020-2036). 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 \$0.36 and \$0.33 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual and the average annual debt service, respectively. The 2020 Preliminary Taxable Assessed Valuation is \$381,860,294. Assuming no increase or decrease from the 2020 Preliminary Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.35 and \$0.32 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual and the average annual debt service requirements, respectively. See “DEBT SERVICE REQUIREMENTS.” Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2019 Certified Taxable Assessed Valuation and the 2020 Preliminary Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. The District makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. See “TAX DATA—Tax Adequacy for Debt Service.”

Landowners/Developers Obligation to the District

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

Future Debt

The District has reserved in the Bond Orders the right to issue obligations other than the Bonds and the Remaining Outstanding Bonds, including tax anticipation notes, bond anticipation notes, and to borrow for any valid corporate purpose. Voters have authorized the issuance of \$22,257,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District, of which \$21,004,406.48 remains authorized for issuance after issuance of the Bonds. Voters within the District have authorized the issuance of \$37,095,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and drainage facilities and \$3,975,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing park and recreational facilities, of which \$14,425,000 of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and drainage facilities and \$2,275,000 for the purpose of purchasing and constructing park and recreational facilities remain authorized but unissued. The future issuance of additional bonds may adversely affect the security for the Bonds and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuation or tax collections and does not otherwise limit the amount of additional bonds or other obligations which may be issued. The issuance of additional unlimited tax bonds (other than refunding bonds), if any, however, is subject to approval by the Commission under guidelines of feasibility established by the Commission. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt” and “THE DISTRICT—General.”

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by an inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or 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 “ESTIMATED OVERLAPPING DEBT STATEMENT”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem homestead and agricultural use property within two years of foreclosure and other types of property within six months after foreclosure). 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. See “TAXING PROCEDURES—District's Rights in the Event of Tax Delinquencies.”

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Environmental and Air Quality Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The EPA published the NWPR in the Federal Register on April 21, 2020 and will go into effect on June 22, 2020. It will likely become the subject of further litigation.

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

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

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

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign municipal bond ratings of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. S&P has also assigned an underlying rating of "A-" to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

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

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

Build America Mutual Assurance Company

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

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

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

Capitalization of BAM

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

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

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

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

Additional Information Available from BAM

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

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

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

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified 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 Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property in the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also state that, as a result of the deposit of cash with the Paying Agent for the Refunded Bonds pursuant to the Escrow Agreement, firm banking arrangements will have been made for the payment of the Refunded Bonds pursuant to the Escrow Agreement and that, therefore, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under such Escrow Agreement. Bond Counsel will express no opinion with respect to the sufficiency of the security for or marketability of the Bonds.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING—Escrow Agreement” and “—Defeasance of the Refunded Bonds,” “THE BONDS” (except Book-Entry-Only System), “THE DISTRICT—General,” “MANAGEMENT OF THE DISTRICT— Bond Counsel/Attorney,” “TAXING PROCEDURES,” “LEGAL MATTERS—Legal Opinions,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. 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 Premium Bonds

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Collateral Federal Income Tax Consequences

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

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

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

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

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

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.

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the Issuer, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and maturing principal of and interest on the Government Obligations held by the Escrow Agent for the Refunded Bonds in the Escrow Account to provide for the payment of the Refunded Bonds; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the bonds will be excluded from gross income for federal income tax purposes and (c) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416, as amended.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

the summaries of the Bond Order, District contracts and provisions of state and federal law contained under the captions "PLAN OF FINANCING—Escrow Agreement" and "—Defeasance of the Refunded Bonds," "THE BONDS (except for "Book-Entry Only System")," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS" and "TAX MATTERS"—Smith, Murdaugh, Little & Bonham, L.L.P.; "STATUS OF DEVELOPMENT IN THE DISTRICT" and "THE SYSTEM"—Sander Engineering Corporation and Municipal District Services, LLC; "SELECTED FINANCIAL INFORMATION," "ESTIMATED OVERLAPPING DEBT STATEMENT" and "TAX DATA"—Harris County Appraisal District, Utility Tax Service, LLC, and the Municipal Advisory Council of Texas.

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

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the 2019 Certified Taxable Assessed Valuation has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as an expert in appraising the values of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed value particularly the sections entitled "TAX DATA—Historical Tax Collections—Tax Roll Information—Principal Taxpayers" has been provided by Utility Tax Service, LLC and is included herein in reliance upon the authority of such entity as an expert in assessing and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the District's water and sewer system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Sander Engineering Corporation, and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

Auditor: The financial statements of the District as of September 30, 2019 and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "Appendix A" for a copy of the District's audited financial statements.

Bookkeeper: The information related to the unaudited summary of the District's General Operating Fund as it appears in the "WATER AND SEWER OPERATIONS" has been provided by District Data Services, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

The District will keep the OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, to the other matters described in the OFFICIAL STATEMENT, until the delivery of the Bonds to the Underwriter, or as otherwise required by law. The District assumes no responsibility for supplementing the OFFICIAL STATEMENT thereafter.

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board makes no other representation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "WATER AND SEWER OPERATIONS," "FINANCIAL STATEMENT," "TAX DATA (except for the subsection entitled Tax Adequacy for Debt Service)," and "APPENDIX A" (District Audited Financial Statements and supplemental schedules). District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation. The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB via EMMA, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) 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 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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB makes the information available to the public without charge through its EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 173 as of the date shown on the cover page.

ATTEST:

/s/ Art Jansen
Secretary, Board of Directors
Harris County Municipal Utility
District No. 173

/s/ David Tinney
President, Board of Directors
Harris County Municipal
Utility District No. 173

APPENDIX A

District Audited Financial Statements for the fiscal year ended September 30, 2019

The information contained in this appendix includes the Independent Auditor's Report and Financial Statements of Harris County Municipal Utility District No. 173 and certain supplemental information for the fiscal year ended September 30, 2019.

Harris County Municipal Utility District No. 173

Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2019



Harris County Municipal Utility District No. 173
September 30, 2019

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 173
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 173 (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 entity'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 thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
February 21, 2020

Harris County Municipal Utility District No. 173

Management's Discussion and Analysis

September 30, 2019

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

Harris County Municipal Utility District No. 173
Management's Discussion and Analysis (Continued)
September 30, 2019

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Harris County Municipal Utility District No. 173
Management's Discussion and Analysis (Continued)
September 30, 2019

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2019	2018
Current and other assets	\$ 7,827,483	\$ 8,950,776
Capital assets	8,621,174	7,181,652
Total assets	16,448,657	16,132,428
Deferred outflows of resources	274,095	302,214
Total assets and deferred outflows of resources	\$ 16,722,752	\$ 16,434,642
Long-term liabilities	\$ 15,898,152	\$ 16,687,168
Other liabilities	490,643	275,434
Total liabilities	16,388,795	16,962,602
Net position:		
Net investment in capital assets	(4,008,439)	(5,640,221)
Restricted	1,355,935	1,404,609
Unrestricted	2,986,461	3,707,652
Total net position	\$ 333,957	\$ (527,960)

The total net position of the District increased by \$861,917, or about 163 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Harris County Municipal Utility District No. 173
Management's Discussion and Analysis (Continued)
September 30, 2019

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 1,798,736	\$ 1,861,259
Tax rebates	64,978	64,479
Charges for services	1,139,896	1,201,735
Other revenues	176,641	237,597
Total revenues	3,180,251	3,365,070
Expenses:		
Services	1,510,168	1,696,722
Depreciation	237,270	210,537
Debt service	570,896	575,091
Total expenses	2,318,334	2,482,350
Change in net position	861,917	882,720
Net position, beginning of year	(527,960)	(1,410,680)
Net position, end of year	\$ 333,957	\$ (527,960)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2019, were \$7,319,927, a decrease of \$1,329,526 from the prior year.

The general fund's fund balance decreased by \$826,718. This decrease was primarily related to capital outlay expenditures and service expenditures being greater than property tax and service revenues.

The debt service fund's fund balance decreased by \$52,694, primarily due to bond principal and interest requirements exceeding property tax revenues.

The capital projects fund's fund balance decreased by \$450,114, primarily due to capital outlay expenditures related to the water plant No. 1 ground storage tank recoating project.

Harris County Municipal Utility District No. 173
Management's Discussion and Analysis (Continued)
September 30, 2019

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to regional water fees revenues and expenditures being greater than anticipated and property tax revenues and purchased services and parks and recreation expenditures being less than anticipated. In addition, capital outlay expenditures and interfund transfers were not budgeted. The fund balance as of September 30, 2019, was expected to be \$3,829,863 and the actual end-of-year fund balance was \$2,869,220.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2019	2018
Land and improvements	\$ 2,330,526	\$ 2,330,526
Construction in progress	1,134,694	52,866
Water facilities	2,097,938	1,728,254
Wastewater facilities	3,058,016	3,070,006
Total capital assets	\$ 8,621,174	\$ 7,181,652

During the current year, additions to capital assets were as follows:

Construction in progress related to Copper Lakes recreation center improvements and 36" sanitary sewer rehabilitation	\$ 1,124,139
Regional wastewater treatment plant rehabilitation	112,760
Water plant No. 1 tank recoating	439,893
Total additions to capital assets	\$ 1,676,792

Debt

The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows.

Harris County Municipal Utility District No. 173
Management's Discussion and Analysis (Continued)
September 30, 2019

Long-term debt payable, beginning of year	\$ 16,687,168
Decreases in long-term debt	<u>(789,016)</u>
Long-term debt payable, end of year	<u>\$ 15,898,152</u>

At September 30, 2019, the District had \$14,425,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$2,275,000 for parks and recreation purposes.

The District's bonds carry an underlying rating of "A-" from Standard & Poor's. The Series 2013 refunding bonds, Series 2017 and Series 2017A bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company, the Series 2012 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp., and the Series 2010 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective December 20, 2007, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Harris County Municipal Utility District No. 173
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 1,186,198	\$ 36,151	\$ 3,079,464	\$ 4,301,813	\$ -	\$ 4,301,813
Short-term investments	1,983,591	1,298,946	-	3,282,537	-	3,282,537
Receivables:						
Property taxes	3,255	6,874	-	10,129	-	10,129
Service accounts	150,545	-	-	150,545	-	150,545
Tax rebates	9,603	-	-	9,603	6,784	16,387
Interfund receivable	9,880	-	46,026	55,906	(55,906)	-
Due from others	10,755	-	-	10,755	-	10,755
Operating deposit	38,026	-	-	38,026	-	38,026
Prepaid expenditures	17,291	-	-	17,291	-	17,291
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	2,330,526	2,330,526
Construction in progress	-	-	-	-	1,134,694	1,134,694
Infrastructure	-	-	-	-	5,155,954	5,155,954
Total assets	3,409,144	1,341,971	3,125,490	7,876,605	8,572,052	16,448,657
Deferred Outflows of Resources						
Deferred amount on debt refundings	0	0	0	0	274,095	274,095
Total assets and deferred outflows of resources	\$ 3,409,144	\$ 1,341,971	\$ 3,125,490	\$ 7,876,605	\$ 8,846,147	\$ 16,722,752

Harris County Municipal Utility District No. 173
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
September 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 264,903	\$ -	\$ -	\$ 264,903	\$ -	\$ 264,903
Retainage payable	107,202	-	-	107,202	-	107,202
Customer deposits	99,481	-	-	99,481	-	99,481
Due to others	907	-	-	907	-	907
Unearned tap connection fees	18,150	-	-	18,150	-	18,150
Interfund payable	46,026	9,880	-	55,906	(55,906)	-
Long-term liabilities:						
Due within one year	-	-	-	-	795,000	795,000
Due after one year	-	-	-	-	15,103,152	15,103,152
Total liabilities	536,669	9,880	0	546,549	15,842,246	16,388,795
Deferred Inflows of Resources						
Deferred property tax revenues	3,255	6,874	0	10,129	(10,129)	0
Fund Balances/Net Position						
Fund balances:						
Nonspendable, prepaid expenditures	17,291	-	-	17,291	(17,291)	-
Restricted:						
Debt service on unlimited tax bonds	-	1,325,217	-	1,325,217	(1,325,217)	-
Water, sewer and drainage	-	-	1,634,465	1,634,465	(1,634,465)	-
Parks and recreation	-	-	1,491,025	1,491,025	(1,491,025)	-
Assigned, operating deposit	38,026	-	-	38,026	(38,026)	-
Unassigned	2,813,903	-	-	2,813,903	(2,813,903)	-
Total fund balances	2,869,220	1,325,217	3,125,490	7,319,927	(7,319,927)	0
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,409,144</u>	<u>\$ 1,341,971</u>	<u>\$ 3,125,490</u>	<u>\$ 7,876,605</u>		
Net position:						
Net investment in capital assets					(4,008,439)	(4,008,439)
Restricted for debt service					1,332,091	1,332,091
Restricted for capital projects					23,844	23,844
Unrestricted					2,986,461	2,986,461
Total net position					<u>\$ 333,957</u>	<u>\$ 333,957</u>

Harris County Municipal Utility District No. 173
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended September 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 546,102	\$ 1,257,856	\$ -	\$ 1,803,958	\$ (5,222)	\$ 1,798,736
Water service	343,273	-	-	343,273	-	343,273
Sewer service	253,594	-	-	253,594	-	253,594
Regional water fee	543,029	-	-	543,029	-	543,029
Tax rebates	64,772	-	-	64,772	206	64,978
Penalty and interest	20,578	13,556	-	34,134	(3,960)	30,174
Tap connection and inspection fees	2,565	-	-	2,565	-	2,565
Investment income	71,490	47,332	12,137	130,959	-	130,959
Other income	12,943	-	-	12,943	-	12,943
Total revenues	<u>1,858,346</u>	<u>1,318,744</u>	<u>12,137</u>	<u>3,189,227</u>	<u>(8,976)</u>	<u>3,180,251</u>
Expenditures/Expenses						
Service operations:						
Purchased services	659,739	-	-	659,739	-	659,739
Regional water fee	115,210	-	-	115,210	-	115,210
Professional fees	129,220	6,166	-	135,386	-	135,386
Contracted services	201,904	29,523	-	231,427	-	231,427
Utilities	33,819	-	-	33,819	-	33,819
Repairs and maintenance	253,569	-	-	253,569	-	253,569
Other expenditures	49,048	3,956	816	53,820	-	53,820
Tap connections	450	-	-	450	-	450
Capital outlay	1,193,045	-	483,747	1,676,792	(1,676,792)	-
Depreciation	-	-	-	-	237,270	237,270
Parks and recreation	26,748	-	-	26,748	-	26,748
Debt service:						
Principal retirement	-	765,000	-	765,000	(765,000)	-
Interest and fees	-	566,793	-	566,793	4,103	570,896
Total expenditures/expenses	<u>2,662,752</u>	<u>1,371,438</u>	<u>484,563</u>	<u>4,518,753</u>	<u>(2,200,419)</u>	<u>2,318,334</u>
Deficiency of Revenues Over Expenditures						
	(804,406)	(52,694)	(472,426)	(1,329,526)	2,191,443	
Other Financing Sources (Uses)						
Interfund transfers in (out)	(22,312)	-	22,312	-		
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out						
	(826,718)	(52,694)	(450,114)	(1,329,526)	1,329,526	
Change in Net Position						
					861,917	861,917
Fund Balances/Net Position						
Beginning of year	3,695,938	1,377,911	3,575,604	8,649,453	-	(527,960)
End of year	<u>\$ 2,869,220</u>	<u>\$ 1,325,217</u>	<u>\$ 3,125,490</u>	<u>\$ 7,319,927</u>	<u>\$ 0</u>	<u>\$ 333,957</u>

Harris County Municipal Utility District No. 173

Notes to Financial Statements

September 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Harris County Municipal Utility District No. 173 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective August 15, 1984, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Harris County Municipal Utility District No. 173

Notes to Financial Statements

September 30, 2019

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Interfund Transactions

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

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Harris County Municipal Utility District No. 173

Notes to Financial Statements

September 30, 2019

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2019, include collections during the current period or within 60 days of year-end related to the 2018 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2019, the 2018 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate 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 received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 8,621,174
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	10,129
Certain tax rebates are not receivable in the current period and are not reported in the funds.	6,784
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	274,095

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Long-term debt obligations are not due and payable in the current period and are not reported in the funds. \$ (15,898,152)

Adjustment to fund balances to arrive at net position. \$ (6,985,970)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances. \$ (1,329,526)

Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current year. 1,439,522

Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions so not have any effect on net position. 765,000

Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues for the governmental funds. (8,976)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (4,103)

Change in net position of governmental activities. \$ 861,917

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain 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.

At September 30, 2019, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, 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, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their 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, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

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

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 3,282,537	\$ 3,282,537	\$ 0	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Credit Risk. 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 investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at September 30, 2019, as follows:

Carrying value:		
Deposits	\$	4,301,813
Investments		3,282,537
Total	\$	7,584,350

Investment Income

Investment income of \$130,959 for the year ended September 30, 2019, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended September 30, 2019, is shown below:

Governmental Activities	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 2,330,526	\$ -	\$ -	\$ 2,330,526
Construction in progress	52,866	1,124,139	(42,311)	1,134,694
Total capital assets, non-depreciable	2,383,392	1,124,139	(42,311)	3,465,220
Capital assets, depreciable:				
Water production and distribution facilities	3,904,926	439,893	42,311	4,387,130
Wastewater collection and treatment facilities	5,370,772	112,760	-	5,483,532
Total capital assets, depreciable	9,275,698	552,653	42,311	9,870,662
Less accumulated depreciation:				
Water production and distribution facilities	(2,176,672)	(112,520)	-	(2,289,192)
Wastewater collection and treatment facilities	(2,300,766)	(124,750)	-	(2,425,516)
Total accumulated depreciation	(4,477,438)	(237,270)	0	(4,714,708)
Total governmental activities, net	\$ 7,181,652	\$ 1,439,522	\$ 0	\$ 8,621,174

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 16,485,000	\$ 765,000	\$ 15,720,000	\$ 795,000
Less discounts on bonds	179,615	8,556	171,059	-
Add premiums on bonds	381,783	32,572	349,211	-
Total governmental activities long-term liabilities	<u>\$ 16,687,168</u>	<u>\$ 789,016</u>	<u>\$ 15,898,152</u>	<u>\$ 795,000</u>

General Obligation Bonds

	Refunding Series 2010	Refunding Series 2012
Amounts outstanding, September 30, 2019	\$760,000	\$7,160,000
Interest rates	3.00%	1.00% to 4.00%
Maturity dates, serially beginning/ending	October 1, 2020	October 1, 2020/2028
Interest payment dates	April 1/ October 1	April 1/ October 1
Callable dates*	October 1, 2018	October 1, 2020
	Refunding Series 2013	Series 2017
Amounts outstanding, September 30, 2019	\$3,200,000	\$2,900,000
Interest rates	2.000% to 3.375%	3.00% to 3.35%
Maturity dates, serially beginning/ending	October 1, 2020/2031	October 1, 2032/2036
Interest payment dates	April 1/ October 1	April 1/ October 1
Callable dates*	October 1, 2020	October 1, 2024

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

	Series 2017A
Amount outstanding, September 30, 2019	\$1,700,000
Interest rates	3.25% to 3.75%
Maturity dates, serially beginning/ending	October 1, 2032/2036
Interest payment dates	April 1/ October 1
Callable date*	October 1, 2024

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The District has been paying the amount due October 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in future years. The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at September 30, 2019.

Year	Principal	Interest	Total
2020	\$ 795,000	\$ 540,143	\$ 1,335,143
2021	790,000	516,554	1,306,554
2022	815,000	492,830	1,307,830
2023	845,000	468,354	1,313,354
2024	880,000	438,855	1,318,855
2025-2029	4,935,000	1,633,299	6,568,299
2030-2034	4,700,000	765,451	5,465,451
2035-2036	1,960,000	98,387	2,058,387
Total	\$ 15,720,000	\$ 4,953,873	\$ 20,673,873

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Water and sewer bonds voted	\$ 37,095,000
Water and sewer bonds sold	22,670,000
Park bonds voted	3,975,000

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

Park bonds sold	\$	1,700,000
Refunding bonds voted		22,257,000
Refunding bond authorization used		1,252,594

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2019, the District levied an ad valorem debt service tax at the rate of \$0.3450 per \$100 of assessed valuation, which resulted in a tax levy of \$1,254,756 on the taxable valuation of \$363,697,401 for the 2018 tax year. The interest and principal requirements paid from the tax revenues were \$1,327,793. The District utilized available debt service fund resources to satisfy the requirements.

- B. The Commission required the District to escrow \$574,750 from the proceeds of its Series 2017 bonds and \$1,220,000 from the proceeds of its Series 2017A bonds. The balances were invested in money market accounts at year-end.

Note 6: Maintenance Taxes

At an election held January 16, 1993, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.1500 per \$100 of assessed valuation, which resulted in a tax levy of \$545,547 on the taxable valuation of \$363,697,401 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Agreements With Other Districts

Wastewater Treatment

The District has entered into an agreement with Harris County Municipal Utility District No. 155 (District No. 155) for wastewater treatment. In a prior year, the District acquired 200,000 gallons-per-day (gpd) permanent capacity in District No. 155's waste treatment facility (the Plant) for \$530,000. In 1995, the District advanced \$41,750 to pay for its proportionate share of modifications to the Plant. The modification project was completed and the permitted capacity of the Plant was increased to 640,000 gpd as a result of those modifications. In 2006, District No. 155 undertook a major expansion of the Plant, resulting in total capacity of 1,550,000 gpd. The District's share of that capacity is 390,120 gpd. Operating costs are shared based on capacity owned and

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

variable costs are shared based on connections served. The District has paid a two-month operating deposit of \$38,026. During the current year, the District incurred operating charges of \$123,611 under this agreement.

The following is a summary of financial information excerpted from the audited financial information of the Plant as of August 31, 2019, the most recent financial statements available.

Total assets	\$	227,885
Total liabilities	\$	189,275
Total equity		38,610
Total liabilities and equity	\$	227,885
Total revenues	\$	897,173
Total expenditures		897,173
Excess revenues	\$	0

Interim and Emergency Water Supply

On December 1, 1992, the District entered into an interim and emergency water supply agreement with District No. 155. The agreement provides for either district to supply water to the other in case of any mechanical or electrical failure in the water distribution system or any act of nature, which results in the inability to produce or supply water adequately and safely to its customers. The District also has an emergency water supply agreement with Harris County Municipal Utility District No. 264. During the year ended September 30, 2019, the District did not use the interconnects.

Note 8: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 9: Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which

Harris County Municipal Utility District No. 173
Notes to Financial Statements
September 30, 2019

regulates groundwater withdrawal. As of September 30, 2019, the Authority was billing the District \$2.95 per 1,000 gallons of water pumped from its wells and \$3.35 per 1,000 gallons of surface water purchased from the Authority. These amounts are subject to future increases. For the year ended September 30, 2019, the District paid \$536,128 for purchased surface water and incurred \$115,210 of pumpage fees.

Note 10: Strategic Partnership Agreement

Effective December 20, 2007, the District and the City entered into a Strategic Partnership Agreement (the Agreement), under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$64,978 in revenues related to the Agreement.

Required Supplementary Information

Harris County Municipal Utility District No. 173
Budgetary Comparison Schedule – General Fund
Year Ended September 30, 2019

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 602,805	\$ 546,102	\$ (56,703)
Water service	353,000	343,273	(9,727)
Sewer service	250,000	253,594	3,594
Regional water fee	450,000	543,029	93,029
Tax rebate revenue	60,000	64,772	4,772
Penalty and interest	14,000	20,578	6,578
Tap connection and inspection fees	29,300	2,565	(26,735)
Investment income	40,000	71,490	31,490
Other income	14,400	12,943	(1,457)
Total revenues	<u>1,813,505</u>	<u>1,858,346</u>	<u>44,841</u>
Expenditures			
Service operations:			
Purchased services	800,000	659,739	140,261
Regional water fee	-	115,210	(115,210)
Professional fees	173,800	129,220	44,580
Contracted services	233,540	201,904	31,636
Utilities	30,000	33,819	(3,819)
Repairs and maintenance	257,200	253,569	3,631
Other expenditures	75,040	49,048	25,992
Tap connections	10,000	450	9,550
Capital outlay	-	1,193,045	(1,193,045)
Parks and recreation	100,000	26,748	73,252
Total expenditures	<u>1,679,580</u>	<u>2,662,752</u>	<u>(983,172)</u>
Excess (Deficiency) of Revenues Over Expenditures	133,925	(804,406)	(938,331)
Other Financing Uses			
Interfund transfers out	-	(22,312)	(22,312)
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	133,925	(826,718)	(960,643)
Fund Balance, Beginning of Year	<u>3,695,938</u>	<u>3,695,938</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 3,829,863</u>	<u>\$ 2,869,220</u>	<u>\$ (960,643)</u>

Harris County Municipal Utility District No. 173
Notes to Required Supplementary Information
September 30, 2019

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2019.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Harris County Municipal Utility District No. 173
Other Schedules Included Within This Report
September 30, 2019

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 173

Schedule of Services and Rates

Year Ended September 30, 2019

1. Services provided by the District:

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

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 16.00	7,000	N	\$ 1.00	7,001 to 20,000
				\$ 1.25	20,001 to 30,000
				\$ 1.50	30,001 to 50,000
				\$ 2.25	50,001 to No Limit
Wastewater:	\$ 16.00	20,000	Y	\$ 1.00	20,001 to 30,000
				\$ 1.25	30,001 to 50,000
				\$ 2.00	50,001 to No Limit
Regional water fee:	\$ 2.95	1	N	\$ 2.95	1 to No Limit

Does the District employ winter averaging for wastewater usage?

Yes No

Total charges per 10,000 gallons usage (including fees):

Water \$ 48.50 Wastewater \$ 16.00

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,305	1,295	x1.0	1,295
1"	9	9	x2.5	23
1 1/2"	9	9	x5.0	45
2"	29	29	x8.0	232
3"	1	1	x15.0	15
4"	-	-	x25.0	-
6"	2	2	x50.0	100
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	1,356	1,346		1,790
Total wastewater	1,298	1,288	x1.0	1,288

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	201,658
Gallons billed to customers:	187,694
Water accountability ratio (gallons billed/gallons pumped):	93.08%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 173
Schedule of General Fund Expenditures
Year Ended September 30, 2019

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	22,000	
Legal		74,527	
Engineering		32,693	
Financial advisor		-	129,220
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			659,739
Regional Water Fee			115,210
Contracted Services			
Bookkeeping		19,167	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		132,575	
Other contracted services		50,162	201,904
		<hr/>	
Utilities			33,819
Repairs and Maintenance			253,569
Administrative Expenditures			
Directors' fees		8,100	
Office supplies		1,133	
Insurance		11,765	
Other administrative expenditures		28,050	49,048
		<hr/>	
Capital Outlay			
Capitalized assets		1,193,045	
Expenditures not capitalized		-	1,193,045
		<hr/>	
Tap Connection Expenditures			450
Solid Waste Disposal			-
Fire Fighting			-
Parks and Recreation			26,748
Other Expenditures			<hr/>
			-
Total expenditures			<hr/> <hr/> \$ 2,662,752

Harris County Municipal Utility District No. 173
Schedule of Temporary Investments
September 30, 2019

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	2.14%	Demand	\$ 1,983,591	\$ -
Debt Service Fund				
TexPool	2.14%	Demand	<u>1,298,946</u>	<u>-</u>
Totals			<u>\$ 3,282,537</u>	<u>\$ 0</u>

Harris County Municipal Utility District No. 173
Analysis of Taxes Levied and Receivable
Year Ended September 30, 2019

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 5,136	\$ 10,215
Additions and corrections to prior years' taxes	(1,326)	(241)
Adjusted receivable, beginning of year	3,810	9,974
 2018 Original Tax Levy	 538,450	 1,238,434
Additions and corrections	7,097	16,322
Adjusted tax levy	545,547	1,254,756
Total to be accounted for	549,357	1,264,730
Tax collections: Current year	(544,130)	(1,251,497)
Prior years	(1,972)	(6,359)
Receivable, end of year	\$ 3,255	\$ 6,874
 Receivable, by Years		
2018	\$ 1,417	\$ 3,259
2017	1,137	2,340
2016	405	746
2015	66	105
2014	101	175
2013	129	246
2012	-	3
Receivable, end of year	\$ 3,255	\$ 6,874

Harris County Municipal Utility District No. 173
Analysis of Taxes Levied and Receivable (Continued)
Year Ended September 30, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property Valuations				
Land	\$ 75,591,074	\$ 71,476,320	\$ 68,077,798	\$ 68,872,127
Improvements	314,236,882	313,578,158	303,202,863	279,234,294
Personal property	9,027,956	8,483,766	9,634,975	9,535,836
Exemptions	<u>(35,158,511)</u>	<u>(34,794,563)</u>	<u>(34,958,630)</u>	<u>(34,518,501)</u>
 Total property valuations	 <u>\$ 363,697,401</u>	 <u>\$ 358,743,681</u>	 <u>\$ 345,957,006</u>	 <u>\$ 323,123,756</u>
 Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.3450	\$ 0.3500	\$ 0.3500	\$ 0.3500
Maintenance tax rates*	<u>0.1500</u>	<u>0.1700</u>	<u>0.1900</u>	<u>0.2200</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.4950</u>	 <u>\$ 0.5200</u>	 <u>\$ 0.5400</u>	 <u>\$ 0.5700</u>
 Tax Levy				
	 <u>\$ 1,800,303</u>	 <u>\$ 1,865,467</u>	 <u>\$ 1,868,168</u>	 <u>\$ 1,841,806</u>
 Percent of Taxes Collected to Taxes Levied**				
	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on January 16, 1993

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years
September 30, 2019

	Refunding Series 2010		
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due April 1, October 1	Total
2020	<u>\$ 760,000</u>	<u>\$ 22,800</u>	<u>\$ 782,800</u>

The District pays the amount due October 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2019

Due During Fiscal Years Ending September 30	Refunding Series 2012		
	Principal Due October 1	Interest Due April 1, October 1	Total
2020	\$ 20,000	\$ 266,275	\$ 286,275
2021	770,000	265,825	1,035,825
2022	795,000	242,725	1,037,725
2023	825,000	218,875	1,043,875
2024	860,000	190,000	1,050,000
2025	905,000	155,600	1,060,600
2026	945,000	119,400	1,064,400
2027	995,000	81,600	1,076,600
2028	1,045,000	41,800	1,086,800
Totals	\$ 7,160,000	\$ 1,582,100	\$ 8,742,100

The District pays the amount due October 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2019

Due During Fiscal Years Ending September 30	Refunding Series 2013		
	Principal Due October 1	Interest Due April 1, October 1	Total
2020	\$ 15,000	\$ 102,494	\$ 117,494
2021	20,000	102,156	122,156
2022	20,000	101,531	121,531
2023	20,000	100,906	120,906
2024	20,000	100,281	120,281
2025	20,000	99,656	119,656
2026	20,000	99,031	119,031
2027	20,000	98,406	118,406
2028	20,000	97,781	117,781
2029	965,000	97,158	1,062,158
2030	1,010,000	67,000	1,077,000
2031	<u>1,050,000</u>	<u>35,438</u>	<u>1,085,438</u>
Totals	<u>\$ 3,200,000</u>	<u>\$ 1,101,838</u>	<u>\$ 4,301,838</u>

The District pays the amount due October 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2019

Due During Fiscal Years Ending September 30	Series 2017		
	Principal Due October 1	Interest Due April 1, October 1	Total
2020	\$ -	\$ 92,861	\$ 92,861
2021	-	92,861	92,861
2022	-	92,861	92,861
2023	-	92,861	92,861
2024	-	92,861	92,861
2025	-	92,861	92,861
2026	-	92,861	92,861
2027	-	92,861	92,861
2028	-	92,861	92,861
2029	-	92,861	92,861
2030	-	92,861	92,861
2031	-	92,861	92,861
2032	530,000	92,861	622,861
2033	555,000	76,961	631,961
2034	580,000	59,619	639,619
2035	605,000	40,769	645,769
2036	630,000	21,105	651,105
Totals	<u>\$ 2,900,000</u>	<u>\$ 1,405,647</u>	<u>\$ 4,305,647</u>

The District pays the amount due October 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2019

Due During Fiscal Years Ending September 30	Series 2017A		
	Principal Due October 1	Interest Due April 1, October 1	Total
2020	\$ -	\$ 55,713	\$ 55,713
2021	-	55,712	55,712
2022	-	55,713	55,713
2023	-	55,712	55,712
2024	-	55,713	55,713
2025	-	55,712	55,712
2026	-	55,713	55,713
2027	-	55,712	55,712
2028	-	55,713	55,713
2029	-	55,712	55,712
2030	-	55,713	55,713
2031	-	55,712	55,712
2032	310,000	55,712	365,712
2033	325,000	45,638	370,638
2034	340,000	35,075	375,075
2035	355,000	24,025	379,025
2036	370,000	12,488	382,488
Totals	<u>\$ 1,700,000</u>	<u>\$ 841,488</u>	<u>\$ 2,541,488</u>

The District pays the amount due October 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

Harris County Municipal Utility District No. 173
Schedule of Long-term Debt Service Requirements by Years (Continued)
September 30, 2019

Due During Fiscal Years Ending September 30	<u>Annual Requirements For All Series</u>		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 795,000	\$ 540,143	\$ 1,335,143
2021	790,000	516,554	1,306,554
2022	815,000	492,830	1,307,830
2023	845,000	468,354	1,313,354
2024	880,000	438,855	1,318,855
2025	925,000	403,829	1,328,829
2026	965,000	367,005	1,332,005
2027	1,015,000	328,579	1,343,579
2028	1,065,000	288,155	1,353,155
2029	965,000	245,731	1,210,731
2030	1,010,000	215,574	1,225,574
2031	1,050,000	184,011	1,234,011
2032	840,000	148,573	988,573
2033	880,000	122,599	1,002,599
2034	920,000	94,694	1,014,694
2035	960,000	64,794	1,024,794
2036	1,000,000	33,593	1,033,593
Totals	<u>\$ 15,720,000</u>	<u>\$ 4,953,873</u>	<u>\$ 20,673,873</u>

Harris County Municipal Utility District No. 173
Changes in Long-term Bonded Debt
Year Ended September 30, 2019

	Bond		
	Refunding Series 2010	Refunding Series 2012	Refunding Series 2013
Interest rates	3.00%	1.00% to 4.00%	2.000% to 3.375%
Dates interest payable	April 1/ October 1	April 1/ October 1	April 1/ October 1
Maturity dates	October 1, 2020	October 1, 2020/2028	October 1, 2020/2031
Bonds outstanding, beginning of current year	\$ 1,490,000	\$ 7,180,000	\$ 3,215,000
Retirements, principal	<u>730,000</u>	<u>20,000</u>	<u>15,000</u>
Bonds outstanding, end of current year	<u>\$ 760,000</u>	<u>\$ 7,160,000</u>	<u>\$ 3,200,000</u>
Interest paid during current year	<u>\$ 44,700</u>	<u>\$ 266,725</u>	<u>\$ 102,794</u>

Paying agent's name and address:

Series 2010 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2012 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2013 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
Series 2017A - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 37,095,000	\$ 3,975,000	\$ 22,257,000
Amount issued	<u>\$ 22,670,000</u>	<u>\$ 1,700,000</u>	<u>\$ 1,252,594</u>
Remaining to be issued	<u>\$ 14,425,000</u>	<u>\$ 2,275,000</u>	<u>\$ 21,004,406</u>

Debt service fund cash and temporary investment balances as of September 30, 2019: \$ 1,335,097

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,216,110

Issues

Series 2017	Series 2017A	Totals
3.00% to 3.35%	3.25% to 3.75%	
April 1/ October 1	April 1/ October 1	
October 1, 2032/2036	October 1, 2032/2036	
\$ 2,900,000	\$ 1,700,000	\$ 16,485,000
-	-	765,000
<u>\$ 2,900,000</u>	<u>\$ 1,700,000</u>	<u>\$ 15,720,000</u>
<u>\$ 92,861</u>	<u>\$ 55,713</u>	<u>\$ 562,793</u>

Harris County Municipal Utility District No. 173
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended September 30,

	Amounts				
	2019	2018	2017	2016	2015
General Fund					
Revenues					
Property taxes	\$ 546,102	\$ 608,389	\$ 655,788	\$ 709,451	\$ 659,969
Water service	343,273	384,664	368,084	345,040	360,542
Sewer service	253,594	274,946	271,254	264,570	234,165
Regional water fee	543,029	542,125	500,247	438,375	389,126
Tax rebate revenue	64,772	63,434	53,908	61,769	53,507
Penalty and interest	20,578	17,463	16,077	19,274	15,217
Tap connection and inspection fees	2,565	94,900	3,635	66,092	210,630
Investment income	71,490	49,407	19,726	6,473	2,064
Other income	12,943	15,630	9,261	104,710	10,051
Total revenues	<u>1,858,346</u>	<u>2,050,958</u>	<u>1,897,980</u>	<u>2,015,754</u>	<u>1,935,271</u>
Expenditures					
Service operations:					
Purchased services	659,739	686,624	702,272	597,090	581,972
Regional water fee	115,210	194,575	81,945	72,047	81,750
Professional fees	129,220	134,791	140,333	114,658	155,575
Contracted services	201,904	212,256	204,447	194,595	191,704
Utilities	33,819	38,038	65,576	11,804	37,397
Repairs and maintenance	253,569	230,011	228,769	308,060	214,907
Other expenditures	49,048	58,278	60,385	72,080	70,373
Tap connections	450	31,440	500	21,730	69,050
Parks and recreation	26,748	66,080	285,224	90,185	48,030
Capital outlay	1,193,045	10,555	-	129,737	-
Debt service, debt issuance costs	-	-	-	20,274	-
Total expenditures	<u>2,662,752</u>	<u>1,662,648</u>	<u>1,769,451</u>	<u>1,632,260</u>	<u>1,450,758</u>
Excess (Deficiency) of Revenues Over Expenditures	(804,406)	388,310	128,529	383,494	484,513
Other Financing Sources (Uses)					
Interfund transfers in (out)	<u>(22,312)</u>	<u>24,774</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	(826,718)	413,084	128,529	383,494	484,513
Fund Balance, Beginning of Year	<u>3,695,938</u>	<u>3,282,854</u>	<u>3,154,325</u>	<u>2,770,831</u>	<u>2,286,318</u>
Fund Balance, End of Year	<u>\$ 2,869,220</u>	<u>\$ 3,695,938</u>	<u>\$ 3,282,854</u>	<u>\$ 3,154,325</u>	<u>\$ 2,770,831</u>
Total Active Retail Water Connections	<u>1,346</u>	<u>1,346</u>	<u>1,344</u>	<u>1,332</u>	<u>1,334</u>
Total Active Retail Wastewater Connections	<u>1,288</u>	<u>1,287</u>	<u>1,286</u>	<u>1,275</u>	<u>1,278</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
29.4 %	29.7 %	34.5 %	35.2 %	34.1 %
18.5	18.8	19.4	17.1	18.6
13.6	13.4	14.3	13.1	12.1
29.2	26.4	26.4	21.7	20.1
3.5	3.1	2.8	3.1	2.8
1.1	0.8	0.9	1.0	0.8
0.1	4.6	0.2	3.3	10.9
3.9	2.4	1.0	0.3	0.1
0.7	0.8	0.5	5.2	0.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
35.5	33.5	37.0	29.6	30.1
6.2	9.5	4.3	3.6	4.2
7.0	6.6	7.4	5.7	8.1
10.9	10.3	10.8	9.7	9.9
1.8	1.9	3.5	0.6	1.9
13.7	11.2	12.0	15.3	11.1
2.6	2.8	3.2	3.6	3.6
0.0	1.5	0.0	1.1	3.6
1.4	3.2	15.0	4.4	2.5
64.2	0.5	-	6.4	-
-	-	-	1.0	-
<u>143.3</u>	<u>81.0</u>	<u>93.2</u>	<u>81.0</u>	<u>75.0</u>
<u>(43.3) %</u>	<u>19.0 %</u>	<u>6.8 %</u>	<u>19.0 %</u>	<u>25.0 %</u>

Harris County Municipal Utility District No. 173
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended September 30,

	Amounts				
	2019	2018	2017	2016	2015
Debt Service Fund					
Revenues					
Property taxes	\$ 1,257,856	\$ 1,251,923	\$ 1,207,461	\$ 1,128,897	\$ 1,147,993
Penalty and interest	13,556	16,959	12,627	23,068	27,994
Investment income	47,332	31,065	13,424	5,570	1,020
Other	-	-	-	-	9,055
Total revenues	<u>1,318,744</u>	<u>1,299,947</u>	<u>1,233,512</u>	<u>1,157,535</u>	<u>1,186,062</u>
Expenditures					
Current:					
Professional fees	6,166	3,787	6,589	6,279	4,040
Contracted services	29,523	30,078	29,822	29,806	30,254
Other expenditures	3,956	8,382	7,086	5,572	6,351
Debt service:					
Principal retirement	765,000	715,000	700,000	680,000	660,000
Interest and fees	<u>566,793</u>	<u>580,793</u>	<u>488,660</u>	<u>459,857</u>	<u>471,607</u>
Total expenditures	<u>1,371,438</u>	<u>1,338,040</u>	<u>1,232,157</u>	<u>1,181,514</u>	<u>1,172,252</u>
Excess (Deficiency) of Revenues Over Expenditures	(52,694)	(38,093)	1,355	(23,979)	13,810
Other Financing Sources					
General obligation bonds issued	-	-	<u>148,574</u>	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(52,694)	(38,093)	149,929	(23,979)	13,810
Fund Balance, Beginning of Year	<u>1,377,911</u>	<u>1,416,004</u>	<u>1,266,075</u>	<u>1,290,054</u>	<u>1,276,244</u>
Fund Balance, End of Year	<u>\$ 1,325,217</u>	<u>\$ 1,377,911</u>	<u>\$ 1,416,004</u>	<u>\$ 1,266,075</u>	<u>\$ 1,290,054</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
95.4 %	96.3 %	97.9 %	97.5 %	96.8 %
1.0	1.3	1.0	2.0	2.4
3.6	2.4	1.1	0.5	0.1
-	-	-	-	0.7
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.5	0.3	0.5	0.5	0.3
2.2	2.3	2.4	2.6	2.6
0.3	0.6	0.6	0.5	0.5
58.0	55.0	56.8	58.8	55.6
<u>43.0</u>	<u>44.7</u>	<u>39.6</u>	<u>39.7</u>	<u>39.8</u>
<u>104.0</u>	<u>102.9</u>	<u>99.9</u>	<u>102.1</u>	<u>98.8</u>
<u>(4.0) %</u>	<u>(2.9) %</u>	<u>0.1 %</u>	<u>(2.1) %</u>	<u>1.2 %</u>

Harris County Municipal Utility District No. 173
Board Members, Key Personnel and Consultants
Year Ended September 30, 2019

Complete District mailing address:	Harris County Municipal Utility District No. 173 c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019
District business telephone number:	713.652.6500
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	November 7, 2019
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
David Tinney	Elected 05/18- 05/22	\$ 1,350	\$ 129	President
George Horton	Elected 05/18- 05/22	2,100	200	Vice President
Chris Rowley	Elected 05/16- 05/20	1,500	143	Assistant Vice President
Richard Raymor	Elected 05/16- 05/20	1,800	171	Assistant Secretary
Art Jansen	Appointed 07/19- 05/20	300	29	Director
John Bishop	Elected 05/16- 07/19	1,050	99	Resigned

*Fees are the amounts actually paid to a director during the District's fiscal year.

Harris County Municipal Utility District No. 173
Board Members, Key Personnel and Consultants (Continued)
Year Ended September 30, 2019

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Michael Arterburn, RTA	03/08/05	\$ 20,125	Tax Assessor/ Collector
BKD, LLP	08/18/93	23,200	Auditor
District Data Services, Inc.	01/27/06	19,166	Bookkeeper
Harris County Appraisal District	Legislative Action	13,342	Appraiser
Masterson Advisors LLC	06/12/18	0	Financial Advisor
Municipal District Services	07/12/11	250,989	Operator
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/21/96	6,166	Delinquent Tax Attorney
Sander Engineering Corporation	09/05/06	135,791	Engineer
Smith, Murdaugh, Little & Bonham, L.L.P.	09/05/06	74,059	Attorney
Investment Officer			
Wendy Austin	11/14/06	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN