

OFFICIAL STATEMENT DATED MAY 27, 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 BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P "AA" (stable outlook)
 Underlying Rating: Moody's "A3"
 See "MUNICIPAL BOND RATING" and
 "MUNICIPAL BOND INSURANCE" herein.

\$6,950,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 391
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX BONDS
SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 391 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

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

Dated Date: June 1, 2020

Due: September 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 U.S. Bank National Association, Houston, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from June 1, 2020, and is payable each September 1 and March 1, commencing September 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 a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (Sept 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2021	\$ 325,000	2.00 %	0.85 %	413958 VC0	2030	\$ 325,000 (a)	2.00 %	1.60 %	413958 VM8
2022	325,000	2.00	0.90	413958 VD8	2031	350,000 (a)	2.00	1.70	413958 VN6
2023	325,000	3.00	0.95	413958 VE6	2032	350,000 (a)	2.00	1.80	413958 VP1
2024	325,000	3.00	1.00	413958 VF3	2033	375,000 (a)	2.00	1.90	413958 VQ9
2025	325,000	3.00	1.10	413958 VG1	2034	375,000 (a)	2.00	1.95	413958 VR7
2026	325,000 (a)	2.00	1.20	413958 VH9	2035	375,000 (a)	2.00	2.00	413958 VS5
2027	325,000 (a)	2.00	1.30	413958 VJ5	***	***	***	***	***
2028	325,000 (a)	2.00	1.40	413958 VK2	2039	375,000 (a)	2.00	2.20	413958 VW6
2029	325,000 (a)	2.00	1.50	413958 VL0	2040	375,000 (a)	2.125	2.25	413958 VX4

\$1,125,000 Term Bonds due September 1, 2038 (a), 413958 VV8 (b), 2.00% Interest Rate, 2.10% Yield (c)

- (a) Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about June 29, 2020.

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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this OFFICIAL STATEMENT, and, if given or made, such other information or 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, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12.

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

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 99.998% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.066160%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

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 utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTBREAK (COVID-19)

General...

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 or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

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

POTENTIAL EFFECTS OF OIL PRICE DECLINES ON THE HOUSTON AREA

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values 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.

WEATHER EVENTS; HURRICANE HARVEY

General...

The greater Houston area, including the Harris County Municipal Utility District No. 391 (the “District”), is subject to occasional severe weather events, including floods, tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple 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 25, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District...

According to Inframark Water and Infrastructure Services (the “Operator”) and R.G. Miller Engineers, Inc. (the “Engineer”), the District’s water and wastewater system sustained no 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, multifamily housing or commercial improvements 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 in the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected. See “INVESTMENT CONSIDERATIONS—Weather Events; Hurricane Harvey.”

THE DISTRICT

Description...

The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (“TCEQ”), on November 14, 2002, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District contains approximately 771 acres of land. See “THE DISTRICT.”

Location...

The District is located approximately 25 miles northwest of the central downtown business district of the City of Houston and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District. The District is located generally to the north of U.S. Highway 290, wrapping around the Cypress Lakes Golf Course to Cypress Rose Hill Road on the east and is intersected by Mueschke Road. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”

Status of Development...

The residential portion of the District has been developed as Villages of Cypress Lakes. Construction of water distribution, wastewater collection and storm drainage facilities to serve Villages of Cypress Lakes, Sections One through Thirty-Five (2,630 lots on approximately 574 acres), as well as street paving, has been completed. As of February 26, 2020, 2,488 homes were completed of which 2,481 were occupied, 31 new homes were under construction or in the name of the builder, and 111 developed lots were available for home construction in the District. New home prices in the District range from approximately \$150,000 to \$700,000.

Approximately 75 acres have been provided with underground trunkline utilities for commercial/multi-family development. A Costco Wholesale Warehouse has been constructed on approximately 19 of the 75 acres. A 7,700 square foot Buc-ee’s restaurant, gas station and car wash, a Christian Brothers Automotive facility, the Shops at Cypress Park, an 11,000 square foot medical office, a Gringo’s Mexican Restaurant, a Cracker Barrel, a Shell gas station and convenience store, a day care center, two retail centers, a Goodwill Select Store, a La Quinta Inns & Suites and a Tru Hilton Hotel have been constructed on approximately 33 of the 75 acres. Grand Cypress Apartments, a 312 unit apartment community, have been constructed on approximately 15 of the 75 acres and is currently approximately 94% occupied according to the apartment community’s management. The remaining approximately 8 of the 75 acres is owned by various entities and is vacant.

The remainder of the District consists of approximately 3 acres of developable but undeveloped property and approximately 119 undevelopable acres (including approximately 3 acres devoted to recreational centers). See “THE DISTRICT—Land Use” and “—Status of Development.”

Woodmere Development Co., Ltd....

The principal developer of land within the District is Woodmere Development Co., Ltd. (“Woodmere” or the “Developer”), a Texas limited partnership, the general partner of which is Woodmere GP, L.L.C., a Texas limited liability company. Woodmere acquired the land in the original boundaries of the District which it has developed from either BGM Land Investments Ltd. or Marwood Land Investments Ltd. (collectively, the “Land Investment Companies”), each a Texas limited partnership with G.P. Landvest L.L.C. as its general partner. The Land Investment Companies own the remaining undeveloped land in the District and intend to sell it to Woodmere for development on an as needed basis. After developing the land, Woodmere sells the developed lots on an as needed basis to Long Lake Ltd. (“Long Lake”), a Texas limited partnership dba Lake Ridge Builders, Briarwood Homes, Hyde Park Builders, Ashwood Homes and Postwood Homes, which build and sell houses in the District. Woodmere, the Land Investment Companies and Long Lake are all under common ownership and management which, through one or more of such entities, have been in the land development business since 1997. In addition, Southwall Builders, Rockwell Builders and HHN Builders, all custom home builders, have built and sold homes in the District. Mueschke Properties and U.S. 290 Retail, Ltd. have developed approximately 36 acres in the District for commercial usage. Mueschke Properties continues to own approximately one of the 36 acres served by underground trunkline utilities for future development. See “THE DISTRICT—Woodmere Development Co., Ltd..”

Builders...

Longlake (d/b/a Lakeridge Builders, Briarwood Homes, Hyde Park Builders and Ashwood Builders) and Toll Brothers are building homes in the District. Long Lake and Woodmere are under common ownership and management. See “THE DISTRICT—Builders” and “—Woodmere Development Co., Ltd..”

Payment Record...

The District has previously issued \$59,360,000 principal amount of unlimited tax bonds in fourteen series, \$4,900,000 principal amount of unlimited tax park bonds in two series, and \$31,270,000 principal amount of unlimited tax refunding bonds in six series, of which \$48,275,000 principal amount is currently outstanding (the “Outstanding Bonds”) as of the date hereof. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Debt.” The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.

THE BONDS

Description...

The \$6,950,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are being issued pursuant to a resolution (the “Bond Resolution”) authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature as serial bonds on September 1 in each of the years 2021 through 2035, both inclusive and 2039 through 2040, both inclusive, and as a term bond maturing on September 1, 2038 (the “Term Bonds”). The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from June 1, 2020, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

Book-Entry-Only System...

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

Redemption...

Bonds maturing on or after September 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to pay for the construction costs and fees shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to pay interest on funds advanced by the Developer on behalf of the District and pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Authority for Issuance...</i>	The Bonds are the fifteenth series of bonds issued out of an aggregate of \$81,500,000 principal amount of unlimited tax bonds authorized by the District’s voters at a bond election held in the District on November 6, 2007 (the “Election”) for the purpose of constructing and/or acquiring water, sewer and drainage facilities. The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	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. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody’s Investors Service (“Moody’s”) has also assigned an underlying rating to the District of “A3” on the Bonds. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	U.S. Bank National Association, Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

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.....	\$646,382,100	(a)
2020 Preliminary Taxable Assessed Valuation	\$704,740,459	(b)
Gross Direct Debt Outstanding	\$55,225,000	(c)
Estimated Overlapping Debt	<u>38,436,466</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$93,661,466	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	8.54%	
2020 Preliminary Taxable Assessed Valuation.....	7.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	14.49%	
2020 Preliminary Taxable Assessed Valuation.....	13.29%	
Debt Service Funds Available as of May 11, 2020	\$5,430,398	(e)
Operating Funds Available as of May 11, 2020	\$6,010,937	(f)
Capital Projects Funds Available as of May 11, 2020.....	\$147,926	
2019 Debt Service Tax Rate.....	\$0.62	
2019 Maintenance and Operations Tax Rate.....	0.40	
2019 Total Tax Rate	\$1.02	
Average Annual Debt Service Requirement (2021-2040).....	\$3,418,726	(g)
Maximum Annual Debt Service Requirement (2021).....	\$4,602,651	(g)
Tax Rates Required to Pay Average Annual Debt Service (2021-2040) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.56	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.52	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.75	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.69	(h)
Status of Development as of February 26, 2020 (i):		
Total Lots Constructed	2,630	
Homes Completed (2,481 occupied).....	2,488	
Homes Under Construction.....	31	
Lots Available for Construction.....	111	
Apartment Units.....	312	
Estimated Population	9,308	(j)

- (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). Such amount is subject to review and downward adjustment prior to certification. Such amount includes the 2020 preliminary real property value in the amount of \$695,424,605 and the 2019 certified personal property value in the District in the amount of \$9,315,854. No tax will be levied on such amount until it is certified in the fall of 2020. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Debt."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.
- (f) The District expects to expend approximately \$586,000 of surplus operating funds to reimburse Woodmere for the construction of District recreational facilities.
- (g) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (h) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (i) See "THE DISTRICT—Land Use" and "—Status of Development."
- (j) Based upon 3.5 persons per occupied single-family residence and 2.0 per apartment unit.

OFFICIAL STATEMENT

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 391 (A political subdivision of the State of Texas located within Harris County)

\$6,950,000

UNLIMITED TAX BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 391 (the "District") of its \$6,950,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the "TCEQ"), a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Woodmere Development Co., Ltd., a Texas limited partnership ("Woodmere" or the "Developer"), BGM Land Investments Ltd. and Marwood Land Investments Ltd. (collectively, the "Land Investment Companies"), Long Lake Ltd. ("Long Lake"), and development activity in the District. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated and accrue interest from June 1, 2020, with interest payable each September 1 and March 1, beginning September 1, 2020 (each an "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed U.S. Bank National Association, Houston, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Houston, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Funds

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and professional fees and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of the entire water, sanitary sewer and drainage system will be used as described in the Bond Resolution or ultimately transferred to the Debt Service Fund. See “USE AND DISTRIBUTION OF BOND PROCEEDS” for a complete description of the use of Bond proceeds and the projects related thereto.

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1, 2038 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$1,125,000 Term Bonds	
Due September 1, 2038	
Mandatory Redemption Date	Principal Amount
2036	\$ 375,000
2037	375,000
2038 (maturity)	375,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2025, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date 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 are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District on February 1, 2003 (the "Election"), voters of the District authorized the issuance of \$81,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, sewer and drainage facilities. The Bonds are being issued pursuant to such authorization.

The TCEQ has authorized the District to sell the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to the Election, an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the suitability of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

Registration and Transfer

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

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

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

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

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

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State 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.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$81,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, sewer and drainage facilities, \$32,600,000 principal amount of unlimited tax bonds for refunding such bonds and \$6,000,000 in unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities and could authorize additional amounts. After the issuance of the Bonds, \$15,190,000 principal amount of unlimited tax bonds will remain authorized but unissued for the purpose of constructing and/or acquiring water, sewer and drainage facilities, \$30,560,794 principal amount of unlimited tax bonds will remain authorized but unissued for refunding such bonds, and \$1,100,000 principal amount of unlimited tax bonds will remain authorized but unissued for the purpose of purchasing or constructing parks and recreational facilities.

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

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ 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 TCEQ, 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.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council

of the City of Houston, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See “Strategic Partnership Agreement” herein. The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (the “SPA”) with the City of Houston, effective December 20, 2007, pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” of approximately 75 acres of the District that has been developed for retail and commercial purposes. Residential development within the District is not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA.

Under the SPA, the City is authorized to impose the one percent (1%) retail City Sales Tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the “Contract Sales Tax Revenue”). Pursuant to State law, the District is authorized to use the Contract Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Contract Sales Tax Revenue is pledged toward the payment of principal of and interest on the Bonds.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. However, the enforcement of any such remedy may be difficult and time consuming and a Registered Owner could be required to enforce such remedy on a periodic basis. Except for mandamus, the Bond Resolution 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 Resolution 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.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedure” of DTC to be followed in dealing with DTC Direct Participants is 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 of each series, 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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).

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by the District and were submitted to the TCEQ in the District’s Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by R.G. Miller Engineers, Inc. (the “Engineer”) and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of certain agreed upon procedures by the District’s auditor. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

I.	CONSTRUCTION COSTS		
	Water, sanitary sewer and storm sewer to serve:		
	Village of Cypress Lakes Section 34.....	\$	223,508
	Village of Cypress Lakes Section 35.....		379,304
	Village of Cypress Lakes Section 18.....		513,725
	Engineering.....		264,887
	Storm Water Pollution Prevention.....		68,032
	Wastewater Treatment Plant Expansion Phase 2.....		4,400,000
	Contingency.....		440,000
	Land Acquisition.....		16,940
	Total Construction Costs	\$	6,306,396
II.	NON-CONSTRUCTION COSTS		
	Developer Interest.....	\$	79,475
	Bond Discount (a).....		121
	Total Non-Construction Costs	\$	79,596
III.	ISSUANCE COSTS AND FEES		
	Issuance Costs and Professional Fees.....	\$	345,804
	Bond Application Report.....		55,000
	State Regulatory Fees.....		24,325
	Contingency (a).....		138,879
	Total Issuance Costs and Fees	\$	564,008
	TOTAL BOND ISSUE	\$	6,950,000

(a) The TCEQ approved a maximum amount of Bond discount of 2.00%. Contingency represents surplus funds resulting from the sale of the Bonds at a lower discount than estimated and can be used for purposes allowed and approved by the TCEQ.

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated November 14, 2002, after a petition for creation submitted by Woodmere and the Land Investment Companies. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

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

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City of Houston which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage and recreational facilities and roads; 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 commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City of Houston and recorded in the real property records. Construction and operation of the District’s system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District contains approximately 771 acres of land. The District is located approximately 25 miles northwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District. The District is located generally to the north of U.S. Highway 290, wrapping around Cypress Lakes Golf Course to Cypress Rose Hill Road on the east and is intersected by Mueschke Road. See “AERIAL PHOTOGRAPH.”

Land Use

The District currently includes approximately 574 developed acres of single-family residential development (2,630 lots), 119 undevelopable acres (drainage and pipeline easements, detention, open spaces, utility sites and recreation centers), approximately 75 acres developed for commercial/multi-family development and approximately 3 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate	
	<u>Acres</u>	<u>Lots</u>
<i><u>Single-Family Residential:</u></i>		
<i>Villages of Cypress Lakes:</i>		
Section One.....	22	114
Section Two.....	25	121
Section Three.....	30	125
Section Four.....	23	66
Section Five.....	15	46
Section Six.....	24	119
Section Seven.....	24	153
Section Eight.....	34	108
Section Nine.....	21	136
Section Ten.....	27	115
Section Eleven.....	17	91
Section Twelve.....	18	91
Section Thirteen.....	8	41
Section Fourteen.....	16	72
Section Fifteen.....	20	118
Section Sixteen.....	10	39
Section Seventeen.....	14	76
Section Eighteen.....	14	30
Section Nineteen.....	24	90
Section Twenty.....	10	57
Section Twenty-One.....	8	22
Section Twenty-Two.....	15	55
Section Twenty-Three.....	14	53
Section Twenty-Four.....	12	65
Section Twenty-Five.....	10	42
Section Twenty-Six.....	9	52
Section Twenty-Seven.....	10	50
Section Twenty-Eight.....	10	56
Section Twenty-Nine.....	17	57
Section Thirty.....	11	68
Section Thirty-One.....	16	91
Section Thirty-Two.....	10	50
Section Thirty-Three.....	12	52
Section Thirty-Four.....	12	56
Section Thirty-Five.....	12	53
Subtotal.....	574	2,630
Commercial/Multi-Family.....	75	--
Future Development.....	3	--
Non-Developable (a).....	119	--
Subtotal.....	197	--
Totals.....	771	2,630

(a) Includes drainage and pipeline easements, detention, open spaces, and utility sites and approximately 3 acres for two recreation centers.

Status of Development

Single-Family Residential: Construction of water distribution, wastewater collection and storm drainage facilities to serve Villages of Cypress Lakes, Sections One through Thirty-Five (2,630 lots on approximately 574 acres), as well as street paving, has been completed. As of February 26, 2020, 2,488 homes were completed, of which 2,481 were occupied, 31 new homes were under construction, and 111 developed lots were available for home construction in the District. New home prices in the District range from approximately \$150,000 to \$700,000.

The estimated population in the District, based upon 3.5 persons per occupied residence and 2.0 persons per apartment unit, is 9,308.

Commercial/Multi-Family: Approximately 75 acres have been provided with underground trunkline utilities for commercial/multi-family development where a 7,700 square foot Buc-ee’s restaurant, gas station and car wash, a Christian Brothers Automotive facility, the Shops at Cypress Park, an 11,000 square foot medical office, a Gringo’s Mexican Restaurant, a Cracker Barrel, a Shell gas station and convenience store, a day care center, two retail centers, a Goodwill Select Store, a La Quinta Inns & Suites and a Tru Hilton Hotel have been constructed on approximately 33 of the 75 acres. A Costco Wholesale Warehouse is located on approximately 19 of the 75 acres. Grand Cypress Apartments, a 312 unit apartment community, has been constructed on approximately 15 of the 75 acres and is currently approximately 94% occupied according to the apartment community’s management.. The remaining approximately 8 of the 75 acres are owned by various entities and are vacant.

Woodmere Development Co., Ltd.

The primary developer of land within the District is Woodmere Development Co., Ltd., a Texas limited partnership, the general partner of which is Woodmere GP, L.L.C. a Texas limited liability company (“Woodmere” or the “Developer”). Woodmere acquired the land in the original boundaries of the District that it has developed from either BGM Land Investments Ltd. or Marwood Land Investments Ltd. (collectively the “Land Investment Companies”), each a Texas limited partnership with G.P. Landvest L.L.C. as its general partner. Woodmere has completed development activity in the District and the Land Investment Companies no longer own any developable land. After developing the land, Woodmere sells the developed lots on an as needed basis to Long Lake Ltd. (“Long Lake”), a Texas limited partnership (doing business as Lake Ridge Builders, Briarwood Homes, Hyde Park Builders, Ashwood Homes and Postwood Homes), which builds and sells houses in the District. Woodmere, the Land Investment Companies and Long Lake are all under common management and common ownership and, through one or more of such entities, have been in the land development business since 1997. In addition, Southwall Builders, Rockwell Builders and HHN Builders, all custom home builders, have built and sold homes in the District. Mueschke Properties and U.S. 290 Retail, Ltd. Developed approximately 36 acres in the District for commercial usage. Mueschke Properties continues to own approximately one of the 36 acres served by underground trunkline utilities for future development.

Builders

Long Lake (d/b/a Lakeridge Builders, Briarwood Homes, Hyde Park Builders and Ashwood Builders) and Toll Brothers are building homes in the District.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years only. Two of the Board members reside within the District and the three remaining Board members own land within the District subject to a note and deed of trust in favor of the Land Investment Companies. 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>
Robert McShane	President	May 2022
John Sachs	Vice President	May 2022
Catherine Shook	Secretary	May 2022
William Shekan	Assistant Vice President	May 2024
Nathan Giannelli	Assistant Secretary	May 2024

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's debt obligations. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audited financial statements are filed with the TCEQ. The financial statements of the District as of May 31, 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. The District has engaged BKD, LLP to audit its financial statements for the fiscal year ended May 31, 2020. See "Appendix A" for a copy of the District's May 31, 2019, financial statements.

Engineer: The District's consulting engineer is R.G. Miller Engineers, Inc.

Bookkeeper: The District has contracted with McLennan & Associates, L.P. (the "Bookkeeper") for bookkeeping services.

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Bob Leared Interests (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Utility System Operator: The operator of the District's internal water and wastewater system is Inframark Water & Infrastructure Services.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Withdrawal of ground water and the issuance of water well permits is subject to the regulatory authority of the Harris-Galveston Subsidence District where applicable (see "Water Supply" and "Subsidence District Requirements" below). Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System.

Water Supply

Water supply for the District is provided by water plant no. 1 and water plant no. 2, which consist of a 1,500 gallon per minute ("gpm") well, a 1,200 gpm well, four 15,000 gallon and one 27,500 pressure tanks, 1,023,921 gallons of ground storage tank capacity and 7,750 gpm of booster pump capacity. Water plant no. 1 and water plant no. 2 have the capacity to serve up to 3,314 connections. As of April, 2020, the District was serving approximately 3,128 active equivalent single-family connections. The District was granted a waiver by the TCEQ from elevated storage on November 8, 2016. According to the Engineer, the District's water quality complies with environmental requirements at the federal, state and local levels.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The 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 North Harris County Regional Water Authority (“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 of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP.

The Authority, among other powers, has the power to (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, 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 the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty 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

Wastewater treatment for the District is provided by a permanent 500,000 gallon per day (“gpd”) wastewater treatment plant and an interim 450,000 gpd wastewater treatment plant, which has adequate capacity to serve 3,800 equivalent single-family connections. A portion of the proceeds from the Bonds will be expended to replace the interim 450,000 gpd wastewater treatment plant that will have capacity to serve 3,800 equivalent single-family connections. Design is underway and construction is expected to commence in early 2021 with completion in summer 2022. As of April, 2020, the District was serving approximately 3,144 active equivalent single-family connections.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 2,630 single-family residential lots within the District and approximately 75 acres of commercial/multi-family development. See “THE DISTRICT—Land Use.”

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no 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 past several years. The District’s drainage system has been designed and constructed to all current standards. Further, according to the Engineer, none of the remaining developable acreage within the District is located within the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

Atlas 14

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties 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. See “THE SYSTEM.”

Water and Wastewater Operations

The following statement sets forth in condensed form the General Operating Fund as derived from the District's audited financial statement for the fiscal years ended May 31, 2016 through May 31, 2019 and an unaudited summary for the period ended March 31, 2020 provided by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. This summary should be used in conjunction with the full audited financial statements attached hereto as "APPENDIX A" and should not be detached.

	6/01/2019 to 3/31/2020 (a) (Unaudited)	Fiscal Year Ended May 31			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 2,518,099	\$ 2,581,454	\$ 2,157,527	\$ 1,952,588	\$ 1,259,240
City of Houston Rebates	124,795	141,547	132,588	114,794	104,938
Water Service	421,552	502,921	507,358	466,991	476,101
Sewer Service	721,855	836,164	821,780	743,526	759,824
Regional Water Fee	1,233,404	1,120,270	962,356	835,741	609,642
Penalty and Interest	35,415	39,160	40,321	36,896	38,810
Tap Connection and Inspection Fees	198,749	127,561	126,380	132,526	236,194
Investment Income	82,511	97,690	42,836	16,358	6,080
Other Income	2,441	71,572	164,987	-	-
Total Revenues	\$ 5,338,821	\$ 5,518,339	\$ 4,956,133	\$ 4,299,420	\$ 3,490,829
Expenditures					
Service Operations:					
Purchased Services	\$ -	\$ -	\$ -	\$ -	\$ 2,410
Regional Water Fees	1,160,887	1,038,068	1,137,351	832,890	617,399
Professional Fees	475,342	144,499	149,361	192,595	172,659
Contracted Services	495,002	611,624	543,333	482,566	464,612
Solid Waste	450,601	454,338	433,903	406,060	363,078
Utilities	223,697	261,691	300,801	258,082	192,899
Repairs and Maintenance	925,916	1,134,442	1,330,739	1,206,836	901,700
Other Expenditures	92,905	121,669	132,132	121,516	101,235
Tap Connections	102,889	37,275	108,896	78,157	111,082
Capital Outlay	744,611	206,590 (b)	164,420 (b)	400,275 (b)	751,489 (b)
Total Expenditures	\$ 4,671,850	\$ 4,010,196	\$ 4,300,936	\$ 3,978,977	\$ 3,678,563
Revenues Over (Under) Expenditures	\$ 666,971	\$ 1,508,143	\$ 655,197	\$ 320,443	\$ (187,734)
Other Sources (Internal Transfers)					
Transfers In (Out)	\$ -	\$ (10,263)	\$ -	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 5,423,421	\$ 3,925,541	\$ 3,270,344	\$ 2,949,901	\$ 3,137,635
Fund Balance (End of Year)	\$ 6,090,392	\$ 5,423,421	\$ 3,925,541	\$ 3,270,344	\$ 2,949,901

(a) Unaudited. Provided by the Bookkeeper.

(b) Capital outlay is for engineering and construction expenses related to the generators installed at the District's water plant and wastewater treatment plant, installation of street lighting and fountains, median improvements, utility relocation along U.S. Highway 290, wastewater treatment rehabilitation, lift station repairs, and rehabilitation and recoating at water plant no. 1.

PARK AND RECREATIONAL FACILITIES

Park and recreational facilities constructed within District include seven amenity lakes surrounded by approximately two miles of paved trails and three recreation centers with amenities such as playgrounds and splash pads with changing facilities, an open air pavilion, and surrounding walking trails.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$646,382,100	(a)
2020 Preliminary Taxable Assessed Valuation	\$704,740,459	(b)
Gross Direct Debt Outstanding	\$55,225,0000	(c)
Estimated Overlapping Debt	<u>38,436,466</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$93,661,466	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	8.54%	
2020 Preliminary Taxable Assessed Valuation.....	7.84%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	14.49%	
2020 Preliminary Taxable Assessed Valuation.....	13.29%	
Debt Service Funds Available as of May 11, 2020	\$5,430,398	(e)
Operating Funds Available as of May 11, 2020	\$6,010,937	(f)
Capital Projects Funds Available as of May 11, 2020.....	\$147,926	

- (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). Such amount is subject to review and downward adjustment prior to certification. Such amount includes the 2020 preliminary real property value in the amount of \$695,424,605 and the 2019 certified personal property value in the District in the amount of \$9,315,854. No tax will be levied on such amount until it is certified in the fall of 2020. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "Outstanding Debt."
- (d) See "Estimated Overlapping Debt."
- (e) Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.
- (f) The District expects to expend approximately \$586,000 of surplus operating funds to reimburse Woodmere for the construction of District recreational facilities.

Investments of the District

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 will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

Outstanding Debt

The District has previously issued fourteen series of unlimited tax bonds, two series of unlimited tax park bonds and six series of unlimited tax refunding bonds in the aggregate principal amount of \$95,530,000, of which \$48,275,000 collectively remains outstanding (the “Outstanding Bonds”) as of the date hereof. The following table lists the original principal amount of the Outstanding Bonds and the principal amount of the Outstanding Bonds.

Series	Original Principal Amount	Outstanding Bonds
2004	\$ 3,310,000	\$ -
2005	3,800,000	-
2006	5,500,000	-
2007	4,400,000	-
2007A	5,300,000	-
2009	3,710,000	-
2010	4,500,000	145,000
2010A	2,500,000	90,000
2011	2,035,000	-
2012 (a)	2,805,000	150,000
2012A	3,000,000	1,595,000
2013 (a)	3,235,000	760,000
2013A	4,925,000	3,725,000
2014 (a)	4,015,000	3,065,000
2014A	2,700,000	2,530,000
2014B (b)	3,200,000	2,130,000
2015 (a)	9,975,000	8,940,000
2015A	8,680,000	7,880,000
2016 (a)	5,235,000	5,170,000
2016A (b)	1,700,000	1,490,000
2017	5,000,000	4,600,000
2019 (a)	6,005,000	6,005,000
Total	\$ 95,530,000	\$ 48,275,000

(a) Unlimited tax refunding bonds.
(b) Unlimited tax park bonds.

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds (see “Outstanding Debt” in this section) and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$ 3,366,578.75 (a)		\$ 37,304.69	\$ 37,304.69	\$ 3,403,883.44
2021	4,128,432.50	\$ 325,000	149,218.75	474,218.75	4,602,651.25
2022	4,114,813.75	325,000	142,718.75	467,718.75	4,582,532.50
2023	4,088,713.75	325,000	136,218.75	461,218.75	4,549,932.50
2024	4,060,663.75	325,000	126,468.75	451,468.75	4,512,132.50
2025	4,042,113.75	325,000	116,718.75	441,718.75	4,483,832.50
2026	4,001,163.75	325,000	106,968.75	431,968.75	4,433,132.50
2027	3,969,313.75	325,000	100,468.75	425,468.75	4,394,782.50
2028	3,925,013.75	325,000	93,968.75	418,968.75	4,343,982.50
2029	3,908,813.75	325,000	87,468.75	412,468.75	4,321,282.50
2030	3,898,463.75	325,000	80,968.75	405,968.75	4,304,432.50
2031	3,253,413.75	350,000	74,468.75	424,468.75	3,677,882.50
2032	3,197,626.25	350,000	67,468.75	417,468.75	3,615,095.00
2033	2,588,657.50	375,000	60,468.75	435,468.75	3,024,126.25
2034	2,546,560.00	375,000	52,968.75	427,968.75	2,974,528.75
2035	1,658,112.50	375,000	45,468.75	420,468.75	2,078,581.25
2036	1,606,225.00	375,000	37,968.75	412,968.75	2,019,193.75
2037	1,559,337.50	375,000	30,468.75	405,468.75	1,964,806.25
2038	1,306,362.50	375,000	22,968.75	397,968.75	1,704,331.25
2039	1,022,387.50	375,000	15,468.75	390,468.75	1,412,856.25
2040	991,450.00	375,000	7,968.75	382,968.75	1,374,418.75
Total	\$ 63,234,217.50	\$ 6,950,000	\$ 1,594,179.69	\$ 8,544,179.69	\$ 71,778,397.19

(a) Excludes the March 1, 2020 debt service payment in the amount of \$821,604.

Average Annual Debt Service Requirements (2021-2040)	\$3,418,726
Maximum Annual Debt Service Requirement (2021)	\$4,602,651

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,885,182,125	3/31/2020	0.13%	\$ 2,450,737
Harris County Flood Control District.....	83,075,000	3/31/2020	0.13%	107,998
Harris County Hospital District.....	55,005,000	3/31/2020	0.13%	71,507
Harris County Department of Education.....	6,320,000	3/31/2020	0.13%	8,216
Port of Houston Authority.....	572,569,397	3/31/2020	0.13%	744,340
Cypress-Faribanks Independent School District.....	2,844,780,000	3/31/2020	1.17%	33,283,926
Lone Star College System.....	570,885,000	3/31/2020	0.31%	1,769,744
Total Estimated Overlapping Debt.....				\$ 38,436,466
The District.....	55,225,000 (a)	Current	100.00%	55,225,000
Total Direct and Estimated Overlapping Debt.....				\$ 93,661,466

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$646,382,100.....	14.49%
2020 Preliminary Taxable Assessed Valuation of \$704,740,459.....	13.29%

(a) The Bonds and the Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District’s tax lien is on a parity with tax liens of 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” 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 taxes levied for the 2019 tax year by all taxing jurisdictions overlapping the District and the District’s 2019 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority).....	\$ 0.616700
Cypress Fairbanks Independent School District.....	1.370000
Harris County Emergency Services District No. 9.....	0.059800
Lone Star College System.....	<u>0.107800</u>
Total Overlapping Tax Rate.....	\$ 2.154300
The District (a).....	<u>1.020000</u>
Total Tax Rate.....	\$ 3.174300

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds or the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Remaining Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS—Tax Collections Limitations and Foreclosure Remedies.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted February 1, 2003, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.00 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” and “Historical Tax Rate Distribution” herein.

Historical Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.62	\$ 0.68	\$ 0.73	\$ 0.73	\$ 0.86
Maintenance and Operations	0.40	0.43	0.38	0.38	0.28
Total	<u>\$ 1.02</u>	<u>\$ 1.11</u>	<u>\$ 1.11</u>	<u>\$ 1.11</u>	<u>\$ 1.14</u>

Additional Penalties

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

Tax Exemptions

For the tax year 2020, the District has adopted an exemption of \$30,000 of the appraised value of residential homesteads of individuals who are sixty-five (65) years of age or older or disabled and a 10% general residential homestead exemption. See “TAXING PROCEDURES—Property Subject to Taxation by the District.”

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

Tax Year	Certified	Tax Rate	Total Tax Levy (b)	Total Collections as of April 30, 2020 (c)	
	Taxable Assessed Valuation (a)			Amount	Percent
2015	\$ 447,950,162	\$ 1.14	\$ 5,106,632	\$ 5,103,880	99.95%
2016	514,938,415	1.11	5,715,816	5,713,262	99.96%
2017	569,413,426	1.11	6,320,489	6,314,319	99.90%
2018	591,347,186	1.11	6,563,954	6,552,466	99.82%
2019	646,382,100	1.02	6,593,097	6,519,250	98.88%

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited.

Tax Roll Information

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of property comprising the 2015 through 2019 Certified Taxable Assessed Valuations. A breakdown of the 2020 Preliminary Taxable Assessed Valuation, of \$704,740,459, which is subject to review and downward adjustment prior to certification, is not available. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2015 Certified Taxable Assessed Valuation	2016 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation	2018 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Land	\$ 98,304,338	\$ 103,229,796	\$ 108,012,947	\$ 111,408,355	\$ 116,529,125
Improvements	383,149,043	430,492,121	473,763,309	507,135,082	561,024,563
Personal Property	7,656,649	7,831,506	9,719,769	9,743,832	9,292,018
Exemptions	(41,159,868)	(26,615,008)	(22,082,599)	(36,940,083)	(40,463,606)
Total	<u>\$ 447,950,162</u>	<u>\$ 514,938,415</u>	<u>\$ 569,413,426</u>	<u>\$ 591,347,186</u>	<u>\$ 646,382,100</u>

Principal Taxpayers

The following table represents the ten major taxpayers, the taxable assessed valuation of such property, and such property’s taxable assessed valuation as a percentage of the 2019 Certified Taxable Assessed Valuation of \$646,382,100. A principal taxpayer list related to the 2020 Preliminary Taxable Assessed Valuation, of \$704,740,459, which is subject to review and downward adjustment prior to certification, is not available.

Taxpayer	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
MMFII Grand Cypress LLC (a)	\$ 31,412,725	4.86%
PS LPT Properties Investors	15,500,000	2.40%
Costco Wholesale Corporation	8,465,807	1.31%
Buc-ee's Ltd.	5,358,610	0.83%
Quattro Mueschke LLC	4,949,500	0.77%
Cypress Lodging Group LLC	4,913,984	0.76%
Mueschke Hospitality	4,800,834	0.74%
Arbed Mueschke LP	4,306,853	0.67%
TMJ Enterprises LLC	3,742,166	0.58%
Mueschke GW Ltd.	3,114,209	0.48%
Total	\$ 86,564,688	13.39%

(a) Apartment complex.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$646,382,100 and the 2020 Preliminary Taxable Assessed Valuation, of \$704,740,459, which is subject to review and downward adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the 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. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2021-2040)	\$3,418,726
\$0.56 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$3,438,753
\$0.52 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation	\$3,481,418
Maximum Annual Debt Service Requirement (2021).....	\$4,602,651
\$0.75 Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$4,605,472
\$0.69 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation	\$4,619,574

No representation or suggestion is made that the 2020 Preliminary Taxable Assessed Valuation will not be adjusted downward prior to being certified as taxable value by the Appraisal District, and no person should rely upon such amounts or its inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District 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 Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the District may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The 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”).

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: 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; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residential 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 the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces 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. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also 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. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See “TAX DATA.”

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to ten percent (10%) annually regardless of the market value of the property.

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

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (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.

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 Property Tax Code.

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

Tax Payment Installments

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

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" 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 year. 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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described in the preceding section 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 amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

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

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

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

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outbreak (COVID-19)

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

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

Potential Effects of Oil Price Declines on the Houston Area

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

Recent Extreme Weather Events; Hurricane Harvey

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

According to the Operator and Engineer, the District's water and wastewater system sustained no material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the Operator and Engineer, no homes, multifamily housing or commercial improvements within the District 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 in the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

River (or Fluvial) Flood: A river (or fluvial) flood 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood: A ponding (or pluvial) flood occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam or levee.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District currently results from the current market value of single-family residences, vacant lots and commercial properties. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential properties can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability the Developer to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 25 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of the District's taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston or a decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth of or reduce the District's property tax base.

Competition

The demand for and construction of single-family homes and rental of multi-family residences in the District, which is 25 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the northwestern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

Development and Home Construction in the District

As of February 26, 2020, approximately 111 developed lots within the District owned by Woodmere or Long Lake Ltd. remained vacant. In addition, approximately 8 of the 75 acres served by trunkline water, sewer and drainage facilities for commercial/multi-family development remained vacant. Future increases in value will result primarily from the construction of new homes and commercial improvements. The District makes no representation with regard to whether or not the homebuilding and commercial development programs will be successful. See "THE DISTRICT—Land Use", "—Status of Development," and "Woodmere Development Co., Ltd."

Possible 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 \$646,382,100. After issuance of the Bonds, the maximum annual debt service requirement will be \$4,602,651 (2021), and the average annual debt service requirement will be \$3,418,726 (2021-2043 inclusive). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.75 and \$0.56 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively. The 2020 Preliminary Taxable Assessed Valuation is \$704,740,459, which is subject to review and downward adjustment prior to certification, which reduces the above tax calculations to \$0.69 and \$0.52 per \$100 of taxable assessed valuation, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."

No representation or suggestion is made that the 2020 Preliminary Taxable Assessed Valuation will not be adjusted downward prior to being certified as taxable value by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES." While the District anticipates future increases in taxable values, it 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. Property within the District also is subject to taxes levied by other political subdivisions. See "TAX DATA—Tax Adequacy for Debt Service."

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies 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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. Except for mandamus, the Bond Resolution 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 Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property.

Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$81,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, sewer and drainage facilities, \$6,000,000 principal amount of unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities and \$32,600,000 principal amount of unlimited tax refunding bonds have been authorized by the District's voters. After issuance of the Bonds, \$15,190,000 principal amount of unlimited tax bonds will remain authorized but unissued for water, sewer and drainage facilities, \$1,100,000 principal amount of unlimited tax bonds will remain authorized but unissued for parks and recreational facilities and \$30,560,794 principal amount of the unlimited tax refunding bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

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

Environmental Regulation

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 NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

Due to 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.

Marketability of the Bonds

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

Changes in Tax Legislation

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

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that, 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.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’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 information contained herein.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by Bracewell LLP as disclosure counsel. The fees of disclosure counsel are contingent upon the sale of the Bonds.

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

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.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, 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.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

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

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) 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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") will assign a municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer"). Moody's Investor Service ("Moody's") has also assigned an underlying rating of "A3" to the Bonds. See "INVESTMENT CONSIDERATIONS --Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

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

MUNICIPAL BOND INSURANCE

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/creditinsights/. (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.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and 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 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, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the 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

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

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by R.G. Miller Engineers, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of May 31, 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."

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Water and Wastewater Operations" has been provided by McLennan & Associates, L.P. and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of Utility Districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

Specified Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final 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 or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the "Rule"). The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operational data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB in such format and accompanied by such identifying information as prescribed by the MSRB. The MSRB makes the information available to the public without charge through an 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; nor has the District 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 or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

During the last five years, the District is in material compliance with its continuing disclosure requirements.

MISCELLANEOUS

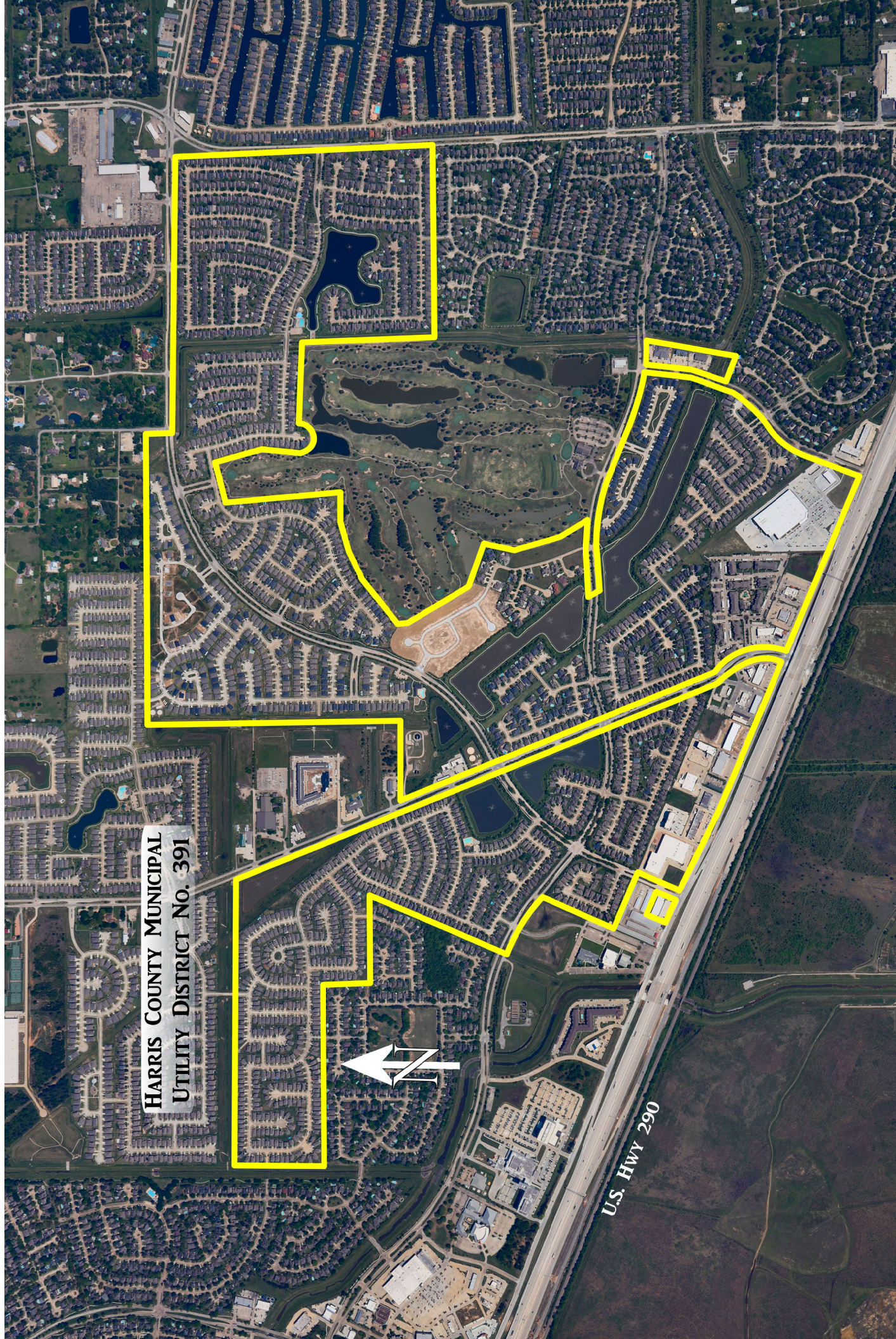
All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not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

/s/ Robert McShane
President, Board of Directors

ATTEST:

/s/ Catherine Shook
Secretary, Board of Directors

**AERIAL PHOTOGRAPH
(As of April 2020)**



HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT No. 391



U.S. HWY 290

**PHOTOGRAPHS OF THE DISTRICT
(As of March 2020)**















APPENDIX A

The information contained in this appendix includes the Independent Auditor's Report and Financial Statements of Harris County Municipal Utility District No. 391 for the fiscal year ended May 31, 2019.

Harris County Municipal Utility District No. 391

Harris County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2019



Harris County Municipal Utility District No. 391
May 31, 2019

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 391
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. 391 (the District), as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 May 31, 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
September 30, 2019

Harris County Municipal Utility District No. 391

Management's Discussion and Analysis

May 31, 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. 391
Management's Discussion and Analysis (Continued)
May 31, 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. 391
Management's Discussion and Analysis (Continued)
May 31, 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	\$ 12,144,001	\$ 10,895,685
Capital assets	35,050,491	35,516,539
Total assets	47,194,492	46,412,224
Deferred outflows of resources	1,546,643	1,629,191
Total assets and deferred outflows of resources	\$ 48,741,135	\$ 48,041,415
Long-term liabilities	\$ 51,199,546	\$ 53,415,989
Other liabilities	1,078,947	1,014,505
Total liabilities	52,278,493	54,430,494
Net position:		
Net investment in capital assets	(14,522,655)	(15,946,744)
Restricted	5,522,139	5,593,320
Unrestricted	5,463,158	3,964,345
Total net position	\$ (3,537,358)	\$ (6,389,079)

The total net position of the District increased by \$2,851,721. 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. 391
Management's Discussion and Analysis (Continued)
May 31, 2019

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 6,661,268	\$ 6,302,912
City of Houston rebates	142,340	132,488
Charges for services	2,459,355	2,291,494
Other revenues	468,438	308,638
Total revenues	9,731,401	9,035,532
Expenses:		
Services	3,904,094	4,240,779
Conveyance of capital assets	189,704	556,539
Depreciation	974,991	969,842
Debt service	1,810,891	2,150,597
Total expenses	6,879,680	7,917,757
Change in net position	2,851,721	1,117,775
Net position, beginning of year	(6,389,079)	(7,506,854)
Net position, end of year	\$ (3,537,358)	\$ (6,389,079)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended May 31, 2019, were \$11,380,119, an increase of \$1,170,780 from the prior year.

The general fund's fund balance increased by \$1,497,880 due to property tax, sales tax rebates and service revenues being greater than service operations expenditures.

The debt service fund's fund balance decreased by \$89,209 due to bond principal and interest expenditures exceeding property tax revenues.

The capital projects fund's fund balance decreased by \$237,891 due to capital outlay expenditures exceeding investment income.

Harris County Municipal Utility District No. 391
Management's Discussion and Analysis (Continued)
May 31, 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 fee and repairs and maintenance expenditures being lower than anticipated as well as investment income and tap connection and inspection fee revenues being higher than anticipated. In addition, other income and capital outlay expenditures were not included in the current year budget. The fund balance as of May 31, 2019, was expected to be \$4,828,925 and the actual end-of-year fund balance was \$5,423,421.

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	\$ 10,602,620	\$ 10,602,620
Construction in progress	212,905	684,822
Water facilities	9,350,405	8,905,534
Wastewater facilities	13,504,515	13,828,092
Park facilities	1,380,046	1,495,471
Total capital assets	\$ 35,050,491	\$ 35,516,539

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

Construction in progress related to Lake Nos. 1 and 2 walk connection landscape improvements and engineering fees for the design of the 0.95 MGD wastewater treatment plant	\$ 206,589
Water and sewer improvements at Villages of Cypress Lakes, Section 34	265,055
Water plant No. 2, Phase 2	37,299
Total additions to capital assets	\$ 508,943

Developers within the District have constructed water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of May 31, 2019, a liability for developer-constructed capital assets of \$365,479 was recorded in the government-wide financial statements.

Harris County Municipal Utility District No. 391
Management's Discussion and Analysis (Continued)
May 31, 2019

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$	53,415,989
Increases in long-term debt		244,759
Decreases in long-term debt		<u>(2,461,202)</u>
 Long-term debt payable, end of year	 \$	 <u>51,199,546</u>

At May 31, 2019, the District had \$22,140,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and \$1,100,000 for financing and constructing recreational facilities within the District.

The District's bonds carry an underlying rating of "BBB" from Standard & Poor's and "A3" from Moody's Investors Service (Moody's). The District's Series 2010 bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Corp. The District's Series 2009, 2010A, 2011, 2012, 2012A and 2015 refunding bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The District's Series 2013 and 2016 refunding bonds and Series 2013A, 2014A, 2014B, 2015A and 2017 bonds carry a "AA" rating by virtue of bond insurance issued by Build America Mutual Assurance Company. The District's Series 2016A bonds carry a "Baa2" rating from Moody's by virtue of bond insurance issued by National Public Finance Guarantee.

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 as follows.

Strategic Partnership Agreement

Effective December 20, 2007, the District entered into a Strategic Partnership 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 Strategic Partnership Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years from the date of the agreement.

Harris County Municipal Utility District No. 391
Management's Discussion and Analysis (Continued)
May 31, 2019

Contingencies

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales. These amounts are to be reimbursed from bond proceeds to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$884,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Event

On July 30, 2019, the District issued \$6,005,000 in unlimited tax refunding bonds, Series 2019 to advance refund \$1,600,000 of outstanding Series 2011 bonds, \$1,925,000 of outstanding Series 2012 bonds, \$810,000 of outstanding Series 2012A bonds and \$1,620,000 of outstanding Series 2013 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$314,575 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$248,992.

Harris County Municipal Utility District No. 391
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 211,163	\$ 207,442	\$ 100	\$ 418,705	\$ -	\$ 418,705
Short-term investments	5,620,019	5,621,515	145,507	11,387,041	-	11,387,041
Receivables:						
Property taxes	26,959	47,879	-	74,838	-	74,838
Service accounts	149,820	-	-	149,820	-	149,820
Sales tax rebates	25,496	-	-	25,496	12,778	38,274
Due from others	17,350	-	-	17,350	-	17,350
Accrued penalty and interest	-	-	-	-	22,643	22,643
Interfund receivable	15,726	-	-	15,726	(15,726)	-
Prepaid expenditures	35,330	-	-	35,330	-	35,330
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	10,602,620	10,602,620
Construction in progress	-	-	-	-	212,905	212,905
Infrastructure	-	-	-	-	22,854,920	22,854,920
Parks	-	-	-	-	1,380,046	1,380,046
Total assets	6,101,863	5,876,836	145,607	12,124,306	35,070,186	47,194,492
Deferred Outflows of Resources						
Deferred amount on debt refundings	0	0	0	0	1,546,643	1,546,643
Total assets and deferred outflows of resources	\$ 6,101,863	\$ 5,876,836	\$ 145,607	\$ 12,124,306	\$ 36,616,829	\$ 48,741,135

Harris County Municipal Utility District No. 391
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 450,228	\$ 2,140	\$ -	\$ 452,368	\$ -	\$ 452,368
Accrued interest payable	-	-	-	-	425,324	425,324
Retainage payable	14,980	-	-	14,980	-	14,980
Customer deposits	186,275	-	-	186,275	-	186,275
Interfund payable	-	10,244	5,482	15,726	(15,726)	-
Long-term liabilities:						
Due within one year	-	-	-	-	2,505,000	2,505,000
Due after one year	-	-	-	-	48,694,546	48,694,546
Total liabilities	651,483	12,384	5,482	669,349	51,609,144	52,278,493
Deferred Inflows of Resources						
Deferred property tax revenues	26,959	47,879	0	74,838	(74,838)	0
Fund Balances/Net Position						
Fund balances:						
Nonspendable, prepaid expenditures	35,330	-	-	35,330	(35,330)	-
Restricted:						
Unlimited tax bonds	-	5,816,573	-	5,816,573	(5,816,573)	-
Water, sewer and drainage	-	-	140,125	140,125	(140,125)	-
Unassigned	5,388,091	-	-	5,388,091	(5,388,091)	-
Total fund balances	5,423,421	5,816,573	140,125	11,380,119	(11,380,119)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 6,101,863	\$ 5,876,836	\$ 145,607	\$ 12,124,306		
Net position:						
Net investment in capital assets					(14,522,655)	(14,522,655)
Restricted for debt service					5,461,771	5,461,771
Restricted for capital projects					60,368	60,368
Unrestricted					5,463,158	5,463,158
Total net position					\$ (3,537,358)	\$ (3,537,358)

Harris County Municipal Utility District No. 391
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 2,581,454	\$ 4,086,029	\$ -	\$ 6,667,483	\$ (6,215)	\$ 6,661,268
City of Houston rebates	141,547	-	-	141,547	793	142,340
Water service	502,921	-	-	502,921	-	502,921
Sewer service	836,164	-	-	836,164	-	836,164
Regional water fee	1,120,270	-	-	1,120,270	-	1,120,270
Penalty and interest	39,160	29,550	-	68,710	(979)	67,731
Tap connection and inspection fees	127,561	-	-	127,561	-	127,561
Investment income	97,690	98,006	5,878	201,574	-	201,574
Other income	71,572	-	-	71,572	-	71,572
Total revenues	5,518,339	4,213,585	5,878	9,737,802	(6,401)	9,731,401
Expenditures/Expenses						
Service operations:						
Regional water fee	1,038,068	-	-	1,038,068	-	1,038,068
Professional fees	144,499	6,886	-	151,385	6,723	158,108
Contracted services	611,624	79,695	-	691,319	-	691,319
Solid waste	454,338	-	-	454,338	-	454,338
Utilities	261,691	-	-	261,691	-	261,691
Repairs and maintenance	1,134,442	-	-	1,134,442	-	1,134,442
Other expenditures	121,669	7,173	11	128,853	-	128,853
Tap connections	37,275	-	-	37,275	-	37,275
Capital outlay	206,590	-	254,021	460,611	(460,611)	-
Conveyance of capital assets	-	-	-	-	189,704	189,704
Depreciation	-	-	-	-	974,991	974,991
Debt service:						
Principal retirement	-	2,460,000	-	2,460,000	(2,460,000)	-
Interest and fees	-	1,747,885	-	1,747,885	61,851	1,809,736
Debt issuance costs	-	1,155	-	1,155	-	1,155
Total expenditures/expenses	4,010,196	4,302,794	254,032	8,567,022	(1,687,342)	6,879,680
Excess (Deficiency) of Revenues Over Expenditures	1,508,143	(89,209)	(248,154)	1,170,780	1,680,941	

Harris County Municipal Utility District No. 391
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended May 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)						
Interfund transfers in (out)	\$ (10,263)	\$ 0	\$ 10,263	\$ 0	\$ 0	
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	1,497,880	(89,209)	(237,891)	1,170,780	(1,170,780)	
Change in Net Position					2,851,721	\$ 2,851,721
Fund Balances/Net Position						
Beginning of year	3,925,541	5,905,782	378,016	10,209,339	-	(6,389,079)
End of year	<u>\$ 5,423,421</u>	<u>\$ 5,816,573</u>	<u>\$ 140,125</u>	<u>\$ 11,380,119</u>	<u>\$ 0</u>	<u>\$ (3,537,358)</u>

Harris County Municipal Utility District No. 391

Notes to Financial Statements

May 31, 2019

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

Harris County Municipal Utility District No. 391 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective November 14, 2002, 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. 391

Notes to Financial Statements

May 31, 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. 391
Notes to Financial Statements
May 31, 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. 391
Notes to Financial Statements
May 31, 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. 391

Notes to Financial Statements

May 31, 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 May 31, 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 May 31, 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
Park facilities	15-20

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. 391
Notes to Financial Statements
May 31, 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.	\$ 35,050,491
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	74,838
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	22,643
Tax rebates are not receivable in the current period and are not reported in the funds.	12,778
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	1,546,643

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	\$ (425,324)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(51,199,546)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (14,917,477)</u></u>

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.	\$ 1,170,780
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 depreciation, conveyance of capital assets and noncapitalized costs exceeded capital outlay expenditures in the current period.	(710,807)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	2,460,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in governmental funds.	(6,401)
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.	<u>(61,851)</u>
Change in net position of governmental activities.	<u><u>\$ 2,851,721</u></u>

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

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.

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 May 31, 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 May 31, 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	<u>\$ 11,387,041</u>	<u>\$ 11,387,041</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

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.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 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 above are included in the balance sheet and statement of net position at May 31, 2019, as follows:

Carrying value:		
Deposits	\$	418,705
Investments		11,387,041
Total	\$	11,805,746

Investment Income

Investment income of \$201,574 for the year ended May 31, 2019, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2019, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Retirements/ Reclassifi- cations	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 10,602,620	\$ -	\$ -	\$ 10,602,620
Construction in progress	684,822	206,589	(678,506)	212,905
Total capital assets, non-depreciable	11,287,442	206,589	(678,506)	10,815,525

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Retirements/ Reclassifi- cations	Balances, End of Year
Capital assets, depreciable:				
Water production and distribution facilities	\$ 11,963,276	\$ 138,177	\$ 678,506	\$ 12,779,959
Wastewater collection and treatment facilities	18,425,803	164,177	-	18,589,980
Park facilities	1,725,321	-	-	1,725,321
	<u>32,114,400</u>	<u>302,354</u>	<u>678,506</u>	<u>33,095,260</u>
Total capital assets, depreciable				
Less accumulated depreciation:				
Water production and distribution facilities	(3,057,742)	(371,812)	-	(3,429,554)
Wastewater collection and treatment facilities	(4,597,711)	(487,754)	-	(5,085,465)
Park facilities	(229,850)	(115,425)	-	(345,275)
	<u>(7,885,303)</u>	<u>(974,991)</u>	<u>0</u>	<u>(8,860,294)</u>
Total accumulated depreciation				
Total governmental activities, net	<u>\$ 35,516,539</u>	<u>\$ (466,048)</u>	<u>\$ 0</u>	<u>\$ 35,050,491</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 53,190,000	\$ -	\$ 2,460,000	\$ 50,730,000	\$ 2,505,000
Less discounts on bonds	706,768	-	37,998	668,770	-
Add premiums on bonds	812,037	-	39,200	772,837	-
	<u>53,295,269</u>	<u>0</u>	<u>2,461,202</u>	<u>50,834,067</u>	<u>2,505,000</u>
Due to developers	120,720	244,759	-	365,479	-
	<u>53,415,989</u>	<u>244,759</u>	<u>2,461,202</u>	<u>51,199,546</u>	<u>2,505,000</u>
Total governmental activities long-term liabilities					

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

General Obligation Bonds

	Series 2009	Series 2010
Amounts outstanding, May 31, 2019	\$150,000	\$280,000
Interest rates	4.85%	5.00%
Maturity dates, serially beginning/ending	September 1, 2019	September 1, 2019/2020
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2017	September 1, 2018
	Series 2010A	Series 2011
Amounts outstanding, May 31, 2019	\$175,000	\$1,670,000
Interest rates	4.000% to 4.625%	4.125% to 6.250%
Maturity dates, serially beginning/ending	September 1, 2019/2020	September 1, 2019/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2018	September 1, 2019
	Refunding Series 2012	Series 2012A
Amounts outstanding, May 31, 2019	\$2,220,000	\$2,515,000
Interest rates	2.00% to 4.00%	3.00% to 5.50%
Maturity dates, serially beginning/ending	September 1, 2019/2030	September 1, 2019/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2019

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

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

	Refunding Series 2013	Series 2013A
Amounts outstanding, May 31, 2019	\$2,555,000	\$3,925,000
Interest rates	2.000% to 3.375%	3.00% to 4.50%
Maturity dates, serially beginning/ending	September 1, 2019/2030	September 1, 2019/2037
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2019	September 1, 2021
	Refunding Series 2014	Series 2014A
Amounts outstanding, May 31, 2019	\$3,310,000	\$2,245,000
Interest rates	3.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2029	September 1, 2019/2038
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2023	September 1, 2022
	Series 2014B	Refunding Series 2015
Amounts outstanding, May 31, 2019	\$2,665,000	\$9,385,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2038	September 1, 2019/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2022	September 1, 2022

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

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

	Series 2015A	Refunding Series 2016
Amounts outstanding, May 31, 2019	\$8,080,000	\$5,195,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2040	September 1, 2019/2034
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2023	September 1, 2024
	Series 2016A	Series 2017
Amounts outstanding, May 31, 2019	\$1,560,000	\$4,800,000
Interest rates	3.00% to 3.75%	2.000% to 3.375%
Maturity dates, serially beginning/ending	September 1, 2019/2040	September 1, 2019/2040
Interest payment dates	September 1/ March 1	September 1/ March 1
Callable dates*	September 1, 2024	September 1, 2024

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

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2019.

Year	Principal	Interest	Total
2020	\$ 2,505,000	\$ 1,661,570	\$ 4,166,570
2021	2,555,000	1,584,360	4,139,360
2022	2,600,000	1,512,415	4,112,415
2023	2,655,000	1,442,258	4,097,258
2024	2,705,000	1,363,928	4,068,928
2025-2029	14,450,000	5,418,058	19,868,058
2030-2034	13,790,000	2,917,483	16,707,483
2035-2039	7,565,000	993,403	8,558,403
2040-2041	1,905,000	72,643	1,977,643
Total	<u>\$ 50,730,000</u>	<u>\$ 16,966,118</u>	<u>\$ 67,696,118</u>

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

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.

Bonds voted	\$ 81,500,000
Bonds sold	59,360,000
Refunding bonds voted	32,600,000
Refunding bonds authorization used	1,848,655
Park bonds voted	6,000,000
Park bonds sold	4,900,000

Due to Developers

Developers of the District have constructed underground utilities on behalf of the District. The District is maintaining and operating these facilities and has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$365,479. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

Note 5: Significant Bond Resolution and Commission Requirements

- A. The Bond Resolutions 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 May 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.6800 per \$100 of assessed valuation, which resulted in a tax levy of \$4,094,201 on the taxable valuation of \$602,088,415 for the 2018 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$4,206,295 of which \$850,648 has been paid and \$3,355,647 is due September 1, 2019.
- B. During the current year, the District transferred \$10,263 from the general fund to the capital projects fund. The transfer was in accordance with the rules of the Commission.

Note 6: Maintenance Taxes

At an election held February 1, 2003, voters authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property within the District subject to taxation. During the year ended May 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.4300 per \$100 of assessed valuation, which resulted in a tax levy of \$2,588,981 on the taxable valuation of \$602,088,415 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Harris County Municipal Utility District No. 391

Notes to Financial Statements

May 31, 2019

Note 7: Regional Water Authority

The District is within the boundaries of the North Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created 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 regulates groundwater withdrawal. As of May 31, 2019, the Authority was billing the District \$3.85 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

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 participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payments of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 9: 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 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 \$142,340 in revenues related to the Agreement.

Note 10: Contingencies

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales. These amounts are to be reimbursed from bond

Harris County Municipal Utility District No. 391
Notes to Financial Statements
May 31, 2019

proceeds to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$884,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 11: Subsequent Event

On July 30, 2019, the District issued \$6,005,000 in unlimited tax refunding bonds, Series 2019 to advance refund \$1,600,000 of outstanding Series 2011 bonds, \$1,925,000 of outstanding Series 2012 bonds, \$810,000 of outstanding Series 2012A bonds and \$1,620,000 of outstanding Series 2013 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$314,575 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$248,992.

Required Supplementary Information

Harris County Municipal Utility District No. 391
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,102,411	\$ 2,571,600	\$ 2,581,454	\$ 9,854
City of Houston rebates	120,000	120,000	141,547	21,547
Water service	484,072	484,072	502,921	18,849
Sewer service	781,000	781,000	836,164	55,164
Regional water fee	1,179,750	1,179,750	1,120,270	(59,480)
Penalty and interest	38,400	38,400	39,160	760
Tap connection and inspection fees	50,520	50,520	127,561	77,041
Investment income	40,800	40,800	97,690	56,890
Other income	-	-	71,572	71,572
Total revenues	4,796,953	5,266,142	5,518,339	252,197
Expenditures				
Service operations:				
Regional water fee	1,383,594	1,383,594	1,038,068	345,526
Professional fees	181,300	181,300	144,499	36,801
Contracted services	604,486	604,486	611,624	(7,138)
Solid waste	431,200	450,769	454,338	(3,569)
Utilities	324,000	324,000	261,691	62,309
Repairs and maintenance	1,249,820	1,249,820	1,134,442	115,378
Other expenditures	149,589	149,589	121,669	27,920
Tap connections	19,200	19,200	37,275	(18,075)
Capital outlay	-	-	206,590	(206,590)
Total expenditures	4,343,189	4,362,758	4,010,196	352,562
Excess of Revenues Over Expenditures	453,764	903,384	1,508,143	604,759
Other Financing Uses				
Interfund transfers out	-	-	(10,263)	(10,263)
Excess of Revenues and Transfers In Over Expenditures and Transfers Out	453,764	903,384	1,497,880	594,496
Fund Balance, Beginning of Year	3,925,541	3,925,541	3,925,541	-
Fund Balance, End of Year	\$ 4,379,305	\$ 4,828,925	\$ 5,423,421	\$ 594,496

Harris County Municipal Utility District No. 391
Notes to Required Supplementary Information
May 31, 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 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. 391
Other Schedules Included Within This Report
May 31, 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 14-29
- [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. 391

Schedule of Services and Rates

Year Ended May 31, 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 checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input 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):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 8.00	6,000	N	\$ 1.25	6,001 to 10,000
				\$ 1.50	10,001 to 15,000
				\$ 1.75	15,001 to 20,000
				\$ 2.00	20,001 to No Limit
Wastewater:	\$ 26.33	0	Y		
Regional water fee:	\$ 4.23	1	N	\$ 4.23	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 \$ 55.30 Wastewater \$ 26.33

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"	2,479	2,463	x1.0	2,463
1"	11	11	x2.5	28
1 1/2"	7	7	x5.0	35
2"	48	46	x8.0	368
3"	1	1	x15.0	15
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	2,549	2,531		3,064
Total wastewater	2,498	2,482	x1.0	2,482

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

Gallons pumped into the system:	336,300
Gallons billed to customers:	301,910
Water accountability ratio (gallons billed/gallons pumped):	89.77%

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 391
Schedule of General Fund Expenditures
Year Ended May 31, 2019

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$ 20,200		
Legal	86,689		
Engineering	37,610		
Financial advisor	-		144,499
	<hr/>		
Purchased Services for Resale			
Bulk water and wastewater service purchases			-
Regional Water Fee			1,038,068
Contracted Services			
Bookkeeping	20,550		
General manager	-		
Appraisal district	-		
Tax collector	-		
Security	428,086		
Other contracted services	162,988		611,624
	<hr/>		
Utilities			261,691
Repairs and Maintenance			1,134,442
Administrative Expenditures			
Directors' fees	9,300		
Office supplies	27,528		
Insurance	22,693		
Other administrative expenditures	52,086		111,607
	<hr/>		
Capital Outlay			
Capitalized assets	206,590		
Expenditures not capitalized	-		206,590
	<hr/>		
Tap Connection Expenditures			37,275
Solid Waste Disposal			454,338
Fire Fighting			-
Other Expenditures			10,062
			<hr/>
Total expenditures		\$	<u><u>4,010,196</u></u>

Harris County Municipal Utility District No. 391
Schedule of Temporary Investments
May 31, 2019

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	2.43%	Demand	<u>\$ 5,620,019</u>	<u>\$ 0</u>
Debt Service Fund				
TexPool	2.43%	Demand	<u>5,621,515</u>	<u>0</u>
Capital Projects Fund				
TexPool	2.43%	Demand	268	-
TexPool	2.43%	Demand	<u>145,239</u>	<u>-</u>
			<u>145,507</u>	<u>0</u>
Totals			<u><u>\$ 11,387,041</u></u>	<u><u>\$ 0</u></u>

Harris County Municipal Utility District No. 391
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2019

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 26,819	\$ 54,234
Additions and corrections to prior years' taxes	(7,387)	(14,527)
Adjusted receivable, beginning of year	19,432	39,707
 2018 Original Tax Levy	 2,446,361	 3,868,663
Additions and corrections	142,620	225,538
Adjusted tax levy	2,588,981	4,094,201
Total to be accounted for	2,608,413	4,133,908
Tax collections: Current year	(2,570,650)	(4,065,215)
Prior years	(10,804)	(20,814)
Receivable, end of year	\$ 26,959	\$ 47,879
 Receivable, by Years		
2018	\$ 18,330	\$ 28,987
2017	3,185	6,119
2016	1,430	2,747
2015	676	2,076
2014	809	2,377
2013	374	951
2012	379	891
2011	427	882
2010	423	874
2009	566	780
2008	289	958
2006	71	237
Receivable, end of year	\$ 26,959	\$ 47,879

Harris County Municipal Utility District No. 391
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2019

	2018	2017	2016	2015
Property Valuations				
Land	\$ 111,371,630	\$ 108,012,947	\$ 103,229,796	\$ 98,233,006
Improvements	517,507,826	475,335,770	433,238,371	385,519,050
Personal property	9,682,333	8,340,190	7,562,511	6,670,383
Exemptions	<u>(36,473,374)</u>	<u>(20,547,688)</u>	<u>(25,776,461)</u>	<u>(40,300,013)</u>
Total property valuations	<u>\$ 602,088,415</u>	<u>\$ 571,141,219</u>	<u>\$ 518,254,217</u>	<u>\$ 450,122,426</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.6800	\$ 0.7300	\$ 0.7300	\$ 0.8600
Maintenance tax rates*	<u>0.4300</u>	<u>0.3800</u>	<u>0.3800</u>	<u>0.2800</u>
Total tax rates per \$100 valuation	<u>\$ 1.1100</u>	<u>\$ 1.1100</u>	<u>\$ 1.1100</u>	<u>\$ 1.1400</u>
Tax Levy	<u>\$ 6,683,182</u>	<u>\$ 6,339,668</u>	<u>\$ 5,752,621</u>	<u>\$ 5,131,395</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: \$1.00 on February 1, 2003

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

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2009		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	<u>\$ 150,000</u>	<u>\$ 3,637</u>	<u>\$ 153,637</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2010		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 135,000	\$ 10,625	\$ 145,625
2021	145,000	3,625	148,625
Totals	\$ 280,000	\$ 14,250	\$ 294,250

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2010A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 85,000	\$ 5,300	\$ 90,300
2021	90,000	1,800	91,800
Totals	\$ 175,000	\$ 7,100	\$ 182,100

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2011		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 70,000	\$ 70,663	\$ 140,663
2021	75,000	66,928	141,928
2022	80,000	63,731	143,731
2023	80,000	60,431	140,431
2024	85,000	57,028	142,028
2025	90,000	53,419	143,419
2026	95,000	49,603	144,603
2027	100,000	45,581	145,581
2028	105,000	41,353	146,353
2029	110,000	36,919	146,919
2030	115,000	32,134	147,134
2031	120,000	26,994	146,994
2032	125,000	21,634	146,634
2033	135,000	15,863	150,863
2034	140,000	9,675	149,675
2035	145,000	3,263	148,263
Totals	\$ 1,670,000	\$ 655,219	\$ 2,325,219

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 145,000	\$ 80,475	\$ 225,475
2021	150,000	76,050	226,050
2022	155,000	71,475	226,475
2023	165,000	66,675	231,675
2024	170,000	60,800	230,800
2025	175,000	53,900	228,900
2026	190,000	46,600	236,600
2027	195,000	38,900	233,900
2028	205,000	30,900	235,900
2029	210,000	22,600	232,600
2030	225,000	13,900	238,900
2031	235,000	4,700	239,700
Totals	<u>\$ 2,220,000</u>	<u>\$ 566,975</u>	<u>\$ 2,786,975</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2012A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 110,000	\$ 76,432	\$ 186,432
2021	115,000	71,956	186,956
2022	120,000	68,431	188,431
2023	125,000	64,756	189,756
2024	130,000	60,931	190,931
2025	140,000	56,881	196,881
2026	145,000	52,607	197,607
2027	150,000	48,181	198,181
2028	160,000	43,531	203,531
2029	165,000	38,656	203,656
2030	170,000	33,631	203,631
2031	180,000	28,381	208,381
2032	190,000	22,713	212,713
2033	195,000	16,697	211,697
2034	205,000	10,319	215,319
2035	215,000	3,494	218,494
Totals	\$ 2,515,000	\$ 697,597	\$ 3,212,597

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2013		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 175,000	\$ 72,356	\$ 247,356
2021	180,000	68,694	248,694
2022	185,000	64,584	249,584
2023	195,000	59,950	254,950
2024	200,000	54,887	254,887
2025	205,000	49,188	254,188
2026	215,000	42,888	257,888
2027	220,000	36,225	256,225
2028	230,000	29,050	259,050
2029	240,000	21,263	261,263
2030	250,000	12,994	262,994
2031	260,000	4,388	264,388
Totals	<u>\$ 2,555,000</u>	<u>\$ 516,467</u>	<u>\$ 3,071,467</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2013A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 200,000	\$ 150,875	\$ 350,875
2021	200,000	144,875	344,875
2022	200,000	138,875	338,875
2023	200,000	132,875	332,875
2024	200,000	126,625	326,625
2025	200,000	120,000	320,000
2026	200,000	112,625	312,625
2027	200,000	104,625	304,625
2028	200,000	96,625	296,625
2029	200,000	88,625	288,625
2030	200,000	80,500	280,500
2031	200,000	72,250	272,250
2032	200,000	63,750	263,750
2033	200,000	55,000	255,000
2034	225,000	45,563	270,563
2035	225,000	35,438	260,438
2036	225,000	25,313	250,313
2037	225,000	15,188	240,188
2038	225,000	5,063	230,063
Totals	<u>\$ 3,925,000</u>	<u>\$ 1,614,690</u>	<u>\$ 5,539,690</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2014		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 245,000	\$ 95,625	\$ 340,625
2021	255,000	88,125	343,125
2022	265,000	80,325	345,325
2023	275,000	72,225	347,225
2024	290,000	63,750	353,750
2025	300,000	54,900	354,900
2026	310,000	45,750	355,750
2027	320,000	36,300	356,300
2028	335,000	26,475	361,475
2029	350,000	16,200	366,200
2030	365,000	5,475	370,475
Totals	<u>\$ 3,310,000</u>	<u>\$ 585,150</u>	<u>\$ 3,895,150</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2014A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 115,000	\$ 65,665	\$ 180,665
2021	115,000	63,365	178,365
2022	115,000	60,978	175,978
2023	115,000	58,334	173,334
2024	115,000	55,430	170,430
2025	115,000	52,383	167,383
2026	115,000	49,105	164,105
2027	115,000	45,655	160,655
2028	115,000	42,205	157,205
2029	110,000	38,830	148,830
2030	110,000	35,530	145,530
2031	110,000	32,230	142,230
2032	110,000	28,930	138,930
2033	110,000	25,630	135,630
2034	110,000	22,248	132,248
2035	110,000	18,782	128,782
2036	110,000	14,988	124,988
2037	110,000	10,862	120,862
2038	110,000	6,600	116,600
2039	110,000	2,200	112,200
Totals	<u>\$ 2,245,000</u>	<u>\$ 729,950</u>	<u>\$ 2,974,950</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2014B		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 135,000	\$ 78,005	\$ 213,005
2021	135,000	75,305	210,305
2022	135,000	72,504	207,504
2023	135,000	69,399	204,399
2024	135,000	65,990	200,990
2025	135,000	62,412	197,412
2026	135,000	58,565	193,565
2027	135,000	54,515	189,515
2028	135,000	50,465	185,465
2029	135,000	46,415	181,415
2030	135,000	42,365	177,365
2031	135,000	38,315	173,315
2032	135,000	34,265	169,265
2033	130,000	30,290	160,290
2034	130,000	26,292	156,292
2035	130,000	22,198	152,198
2036	130,000	17,713	147,713
2037	130,000	12,837	142,837
2038	130,000	7,800	137,800
2039	130,000	2,600	132,600
Totals	\$ 2,665,000	\$ 868,250	\$ 3,533,250

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2015		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 445,000	\$ 303,350	\$ 748,350
2021	600,000	287,675	887,675
2022	605,000	269,600	874,600
2023	615,000	251,300	866,300
2024	620,000	229,675	849,675
2025	630,000	204,675	834,675
2026	645,000	179,175	824,175
2027	650,000	156,525	806,525
2028	650,000	137,025	787,025
2029	655,000	117,450	772,450
2030	660,000	97,313	757,313
2031	1,070,000	69,612	1,139,612
2032	670,000	41,338	711,338
2033	675,000	18,637	693,637
2034	100,000	5,075	105,075
2035	95,000	1,663	96,663
Totals	<u>\$ 9,385,000</u>	<u>\$ 2,370,088</u>	<u>\$ 11,755,088</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2015A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 200,000	\$ 273,387	\$ 473,387
2021	200,000	267,388	467,388
2022	200,000	262,387	462,387
2023	200,000	258,388	458,388
2024	200,000	254,137	454,137
2025	200,000	249,388	449,388
2026	200,000	244,387	444,387
2027	200,000	239,138	439,138
2028	200,000	233,387	433,387
2029	200,000	227,263	427,263
2030	200,000	220,887	420,887
2031	200,000	214,388	414,388
2032	500,000	202,387	702,387
2033	500,000	184,888	684,888
2034	500,000	167,387	667,387
2035	500,000	149,888	649,888
2036	600,000	129,887	729,887
2037	600,000	107,388	707,388
2038	600,000	84,887	684,887
2039	625,000	61,919	686,919
2040	625,000	37,700	662,700
2041	630,000	12,600	642,600
Totals	<u>\$ 8,080,000</u>	<u>\$ 4,083,456</u>	<u>\$ 12,163,456</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Refunding Series 2016		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 25,000	\$ 189,650	\$ 214,650
2021	25,000	189,150	214,150
2022	270,000	186,200	456,200
2023	280,000	180,700	460,700
2024	290,000	173,550	463,550
2025	300,000	164,700	464,700
2026	315,000	153,900	468,900
2027	335,000	140,900	475,900
2028	350,000	127,200	477,200
2029	365,000	112,900	477,900
2030	390,000	97,800	487,800
2031	405,000	81,900	486,900
2032	425,000	65,300	490,300
2033	450,000	47,800	497,800
2034	470,000	29,400	499,400
2035	500,000	10,000	510,000
Totals	<u>\$ 5,195,000</u>	<u>\$ 1,951,050</u>	<u>\$ 7,146,050</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2016A		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 70,000	\$ 50,088	\$ 120,088
2021	70,000	47,987	117,987
2022	70,000	45,888	115,888
2023	70,000	43,787	113,787
2024	70,000	41,688	111,688
2025	70,000	39,587	109,587
2026	70,000	37,488	107,488
2027	70,000	35,387	105,387
2028	70,000	33,288	103,288
2029	70,000	31,187	101,187
2030	70,000	29,000	99,000
2031	70,000	26,725	96,725
2032	70,000	24,450	94,450
2033	70,000	22,088	92,088
2034	70,000	19,638	89,638
2035	70,000	17,188	87,188
2036	70,000	14,738	84,738
2037	70,000	12,287	82,287
2038	75,000	9,750	84,750
2039	75,000	7,031	82,031
2040	75,000	4,218	79,218
2041	75,000	1,406	76,406
Totals	\$ 1,560,000	\$ 594,894	\$ 2,154,894

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Series 2017		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 200,000	\$ 135,437	\$ 335,437
2021	200,000	131,437	331,437
2022	200,000	127,437	327,437
2023	200,000	123,438	323,438
2024	200,000	119,437	319,437
2025	200,000	114,437	314,437
2026	200,000	108,438	308,438
2027	200,000	102,438	302,438
2028	200,000	96,438	296,438
2029	200,000	90,437	290,437
2030	200,000	84,438	284,438
2031	200,000	78,438	278,438
2032	225,000	72,063	297,063
2033	225,000	65,313	290,313
2034	225,000	58,562	283,562
2035	225,000	51,813	276,813
2036	250,000	44,531	294,531
2037	250,000	36,719	286,719
2038	250,000	28,750	278,750
2039	250,000	20,625	270,625
2040	250,000	12,500	262,500
2041	250,000	4,219	254,219
Totals	<u>\$ 4,800,000</u>	<u>\$ 1,707,345</u>	<u>\$ 6,507,345</u>

Harris County Municipal Utility District No. 391
Schedule of Long-term Debt Service Requirements by Years (Continued)
May 31, 2019

Due During Fiscal Years Ending May 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 2,505,000	\$ 1,661,570	\$ 4,166,570
2021	2,555,000	1,584,360	4,139,360
2022	2,600,000	1,512,415	4,112,415
2023	2,655,000	1,442,258	4,097,258
2024	2,705,000	1,363,928	4,068,928
2025	2,760,000	1,275,870	4,035,870
2026	2,835,000	1,181,131	4,016,131
2027	2,890,000	1,084,370	3,974,370
2028	2,955,000	987,942	3,942,942
2029	3,010,000	888,745	3,898,745
2030	3,090,000	785,967	3,875,967
2031	3,185,000	678,321	3,863,321
2032	2,650,000	576,830	3,226,830
2033	2,690,000	482,206	3,172,206
2034	2,175,000	394,159	2,569,159
2035	2,215,000	313,727	2,528,727
2036	1,385,000	247,170	1,632,170
2037	1,385,000	195,281	1,580,281
2038	1,390,000	142,850	1,532,850
2039	1,190,000	94,375	1,284,375
2040	950,000	54,418	1,004,418
2041	955,000	18,225	973,225
Totals	<u>\$ 50,730,000</u>	<u>\$ 16,966,118</u>	<u>\$ 67,696,118</u>

Harris County Municipal Utility District No. 391

Changes in Long-term Bonded Debt

Year Ended May 31, 2019

	Bond		
	Series 2007A	Series 2009	Series 2010
Interest rates	4.30%	4.85%	5.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates		September 1, 2019	September 1, 2019/2020
Bonds outstanding, beginning of current year	\$ 185,000	\$ 300,000	\$ 405,000
Retirements, principal	185,000	150,000	125,000
Bonds outstanding, end of current year	\$ 0	\$ 150,000	\$ 280,000
Interest paid during current year	\$ 3,977	\$ 10,800	\$ 17,125

Paying agent's name and address:

Series 2007A	- Wachovia Bank, N.A., Houston, Texas
Series 2009	- Wachovia Bank, N.A., Houston, Texas
Series 2010	- Wachovia Bank, N.A., Houston, Texas
Series 2010A	- US Bank N.A., Houston, Texas
Series 2011	- US Bank N.A., Houston, Texas
Series 2012	- US Bank N.A., Houston, Texas
Series 2012A	- US Bank N.A., Houston, Texas
Series 2013	- US Bank N.A., Houston, Texas
Series 2013A	- US Bank N.A., Houston, Texas
Series 2014	- US Bank N.A., Houston, Texas
Series 2014A	- US Bank N.A., Houston, Texas
Series 2014B	- US Bank N.A., Houston, Texas
Series 2015	- US Bank N.A., Houston, Texas
Series 2015A	- US Bank N.A., Houston, Texas
Series 2016	- US Bank N.A., Houston, Texas
Series 2016A	- US Bank N.A., Houston, Texas
Series 2017	- US Bank N.A., Houston, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 81,500,000	\$ 6,000,000	\$ 32,600,000
Amount issued	\$ 59,360,000	\$ 4,900,000	\$ 1,848,655
Remaining to be issued	\$ 22,140,000	\$ 1,100,000	\$ 30,751,345
Debt service fund cash and temporary investment balances as of May 31, 2019:			\$ 5,828,957
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 3,077,096

Issues

Series 2010A	Series 2011	Refunding Series 2012	Series 2012A	Refunding Series 2013	Series 2013A
4.000% to 4.625%	4.125% to 6.250%	2.00% to 4.00%	3.00% to 5.50%	2.000% to 3.375%	3.00% to 4.50%
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1
September 1, 2019/2020	September 1, 2019/2034	September 1, 2019/2030	September 1, 2019/2034	September 1, 2019/2030	September 1, 2019/2037
\$ 255,000	\$ 1,740,000	\$ 2,360,000	\$ 2,620,000	\$ 2,725,000	\$ 4,125,000
80,000	70,000	140,000	105,000	170,000	200,000
<u>\$ 175,000</u>	<u>\$ 1,670,000</u>	<u>\$ 2,220,000</u>	<u>\$ 2,515,000</u>	<u>\$ 2,555,000</u>	<u>\$ 3,925,000</u>
<u>\$ 8,850</u>	<u>\$ 75,038</u>	<u>\$ 84,750</u>	<u>\$ 81,806</u>	<u>\$ 75,806</u>	<u>\$ 156,875</u>

Harris County Municipal Utility District No. 391
Changes in Long-term Bonded Debt (Continued)
Year Ended May 31, 2019

	Bond			
	Refunding Series 2014	Series 2014A	Series 2014B	Refunding Series 2015
Interest rates	3.00%	2.00% to 4.00%	2.00% to 4.00%	2.00% to 4.00%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2019/2029	September 1, 2019/2038	September 1, 2019/2038	September 1, 2019/2034
Bonds outstanding, beginning of current year	\$ 3,550,000	\$ 2,360,000	\$ 2,800,000	\$ 9,640,000
Retirements, principal	<u>240,000</u>	<u>115,000</u>	<u>135,000</u>	<u>255,000</u>
Bonds outstanding, end of current year	<u>\$ 3,310,000</u>	<u>\$ 2,245,000</u>	<u>\$ 2,665,000</u>	<u>\$ 9,385,000</u>
Interest paid during current year	<u>\$ 102,900</u>	<u>\$ 67,965</u>	<u>\$ 80,705</u>	<u>\$ 312,575</u>

Issues (Continued)

Series 2015A	Refunding Series 2016	Series 2016A	Series 2017	Totals
2.00% to 4.00%	2.00% to 4.00%	3.00% to 3.75%	2.000% to 3.375%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2019/2040	September 1, 2019/2034	September 1, 2019/2040	September 1, 2019/2040	
\$ 8,280,000	\$ 5,215,000	\$ 1,630,000	\$ 5,000,000	\$ 53,190,000
<u>200,000</u>	<u>20,000</u>	<u>70,000</u>	<u>200,000</u>	<u>2,460,000</u>
<u>\$ 8,080,000</u>	<u>\$ 5,195,000</u>	<u>\$ 1,560,000</u>	<u>\$ 4,800,000</u>	<u>\$ 50,730,000</u>
<u>\$ 279,388</u>	<u>\$ 190,100</u>	<u>\$ 52,187</u>	<u>\$ 139,437</u>	<u>\$ 1,740,284</u>

Harris County Municipal Utility District No. 391
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
General Fund					
Revenues					
Property taxes	\$ 2,581,454	\$ 2,157,527	\$ 1,952,588	\$ 1,259,240	\$ 1,195,965
City of Houston rebates	141,547	132,588	114,794	104,938	88,346
Water service	502,921	507,358	466,991	476,101	418,147
Sewer service	836,164	821,780	743,526	759,824	644,916
Regional water fee	1,120,270	962,356	835,741	609,642	501,894
Penalty and interest	39,160	40,321	36,896	38,810	37,858
Tap connection and inspection fees	127,561	126,380	132,526	236,194	145,358
Investment income	97,690	42,836	16,358	6,080	1,363
Other income	71,572	164,987	-	-	-
Total revenues	<u>5,518,339</u>	<u>4,956,133</u>	<u>4,299,420</u>	<u>3,490,829</u>	<u>3,033,847</u>
Expenditures					
Service operations:					
Purchased services	-	-	-	2,410	-
Regional water fees	1,038,068	1,137,351	832,890	617,399	526,912
Professional fees	144,499	149,361	192,595	172,659	153,687
Contracted services	611,624	543,333	482,566	464,612	382,024
Solid waste	454,338	433,903	406,060	363,078	353,755
Utilities	261,691	300,801	258,082	192,899	251,906
Repairs and maintenance	1,134,442	1,330,739	1,206,836	901,700	622,993
Other expenditures	121,669	132,132	121,516	101,235	107,688
Tap connections	37,275	108,896	78,157	111,082	67,155
Capital outlay	206,590	164,420	400,275	751,489	168,214
Total expenditures	<u>4,010,196</u>	<u>4,300,936</u>	<u>3,978,977</u>	<u>3,678,563</u>	<u>2,634,334</u>
Excess (Deficiency) of Revenues Over Expenditures	1,508,143	655,197	320,443	(187,734)	399,513
Other Financing Uses					
Interfund transfers out	(10,263)	-	-	-	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	1,497,880	655,197	320,443	(187,734)	399,513
Fund Balance, Beginning of Year	<u>3,925,541</u>	<u>3,270,344</u>	<u>2,949,901</u>	<u>3,137,635</u>	<u>2,738,122</u>
Fund Balance, End of Year	<u>\$ 5,423,421</u>	<u>\$ 3,925,541</u>	<u>\$ 3,270,344</u>	<u>\$ 2,949,901</u>	<u>\$ 3,137,635</u>
Total Active Retail Water Connections	<u>2,531</u>	<u>2,484</u>	<u>2,398</u>	<u>2,292</u>	<u>2,175</u>
Total Active Retail Wastewater Connections	<u>2,482</u>	<u>2,436</u>	<u>2,353</u>	<u>2,250</u>	<u>2,139</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
46.8 %	43.5 %	45.4 %	36.1 %	39.4 %
2.6	2.7	2.7	3.0	2.9
9.1	10.2	10.8	13.6	13.8
15.1	16.6	17.3	21.8	21.3
20.3	19.4	19.4	17.4	16.5
0.7	0.8	0.9	1.1	1.3
2.3	2.6	3.1	6.8	4.8
1.8	0.9	0.4	0.2	0.0
1.3	3.3	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
-	-	-	0.1	-
18.8	22.9	19.4	17.7	17.4
3.1	3.0	4.5	5.0	5.1
11.1	11.0	11.2	13.3	12.6
8.2	8.7	9.4	10.4	11.7
4.7	6.1	6.0	5.5	8.3
20.6	26.9	28.1	25.8	20.5
2.2	2.7	2.8	2.9	3.5
0.7	2.2	1.8	3.2	2.2
3.3	3.3	9.3	21.5	5.5
<u>72.7</u>	<u>86.8</u>	<u>92.5</u>	<u>105.4</u>	<u>86.8</u>
<u><u>27.3 %</u></u>	<u><u>13.2 %</u></u>	<u><u>7.5 %</u></u>	<u><u>(5.4) %</u></u>	<u><u>13.2 %</u></u>

Harris County Municipal Utility District No. 391
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended May 31,

	Amounts				
	2019	2018	2017	2016	2015
Debt Service Fund					
Revenues					
Property taxes	\$ 4,086,029	\$ 4,148,980	\$ 3,750,442	\$ 3,865,619	\$ 3,510,454
Penalty and interest	29,550	36,741	20,783	30,415	23,667
Investment income	<u>98,006</u>	<u>56,985</u>	<u>23,120</u>	<u>8,959</u>	<u>1,558</u>
Total revenues	<u>4,213,585</u>	<u>4,242,706</u>	<u>3,794,345</u>	<u>3,904,993</u>	<u>3,535,679</u>
Expenditures					
Current:					
Professional fees	6,886	11,413	2,089	8,832	7,176
Contracted services	79,695	76,182	71,661	67,876	59,502
Other expenditures	7,173	6,127	4,966	4,354	3,684
Debt service:					
Principal retirement	2,460,000	2,205,000	2,070,000	1,730,000	1,420,000
Interest and fees	1,747,885	1,711,423	1,733,951	1,544,412	1,577,963
Debt issuance costs	1,155	1,000	201,885	-	424,119
Debt defeasance	<u>-</u>	<u>-</u>	<u>5,500</u>	<u>-</u>	<u>190,000</u>
Total expenditures	<u>4,302,794</u>	<u>4,011,145</u>	<u>4,090,052</u>	<u>3,355,474</u>	<u>3,682,444</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(89,209)</u>	<u>231,561</u>	<u>(295,707)</u>	<u>549,519</u>	<u>(146,765)</u>
Other Financing Sources (Uses)					
General obligation bonds issued	-	-	5,235,000	296,388	14,155,970
Premium on debt issued	-	-	634,741	-	188,839
Deposit with escrow agent	<u>-</u>	<u>-</u>	<u>(5,661,570)</u>	<u>-</u>	<u>(13,748,617)</u>
Total other financing sources	<u>0</u>	<u>0</u>	<u>208,171</u>	<u>296,388</u>	<u>596,192</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(89,209)</u>	<u>231,561</u>	<u>(87,536)</u>	<u>845,907</u>	<u>449,427</u>
Fund Balance, Beginning of Year	<u>5,905,782</u>	<u>5,674,221</u>	<u>5,761,757</u>	<u>4,915,850</u>	<u>4,466,423</u>
Fund Balance, End of Year	<u>\$ 5,816,573</u>	<u>\$ 5,905,782</u>	<u>\$ 5,674,221</u>	<u>\$ 5,761,757</u>	<u>\$ 4,915,850</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
97.0 %	97.8 %	98.8 %	99.0 %	99.3 %
0.7	0.9	0.6	0.8	0.7
<u>2.3</u>	<u>1.3</u>	<u>0.6</u>	<u>0.2</u>	<u>0.0</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.1	0.3	0.1	0.2	0.2
1.9	1.8	1.9	1.7	1.7
0.2	0.1	0.1	0.1	0.1
58.4	52.0	54.6	44.6	40.2
41.5	40.3	45.7	39.5	44.6
0.0	0.0	5.3	-	12.0
<u>-</u>	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>5.4</u>
<u>102.1</u>	<u>94.5</u>	<u>107.8</u>	<u>86.1</u>	<u>104.2</u>
<u>(2.1) %</u>	<u>5.5 %</u>	<u>(7.8) %</u>	<u>13.9 %</u>	<u>(4.2) %</u>

Harris County Municipal Utility District No. 391
Board Members, Key Personnel and Consultants
Year Ended May 31, 2019

Complete District mailing address:	Harris County Municipal Utility District No. 391 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	June 4, 2018
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
Alan Greenwood	Elected 05/16- 05/20	\$ 1,800	\$ 403	President
Robert McShane	Elected 05/18- 05/22	1,650	49	Vice President
Catherine Shook	Elected 05/18- 05/22	2,850	1,818	Secretary
John Sachs	Elected 05/18- 05/22	1,650	184	Assistant Vice President
Nathan Giannelli	Appointed 06/16- 05/20	1,350	305	Assistant Secretary

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

Harris County Municipal Utility District No. 391
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2019

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Allen Boone Humphries Robinson LLP	07/28/03	\$ 90,312	Attorney
BKD, LLP	04/22/04	23,300	Auditor
Harris County Appraisal District	Legislative Action	48,098	Appraiser
Inframark, LLC	07/28/05	863,949	Operator
Bob Leared Interests	02/06/03	37,920	Tax Assessor/ Collector
Masterson Advisors LLC	05/14/18	0	Financial Advisor
McLennan & Associates, LP	04/22/04	23,627	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/25/04	6,886	Delinquent Tax Attorney
R.G. Miller Engineers, Inc.	02/06/03	63,596	Engineer
Investment Officer			
Jorge Diaz	01/09/17	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

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)

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