OFFICIAL STATEMENT DATED JUNE 16, 2020

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3, OF HARRIS AND FORT BEND COUNTIES, TEXAS. IN THE OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL, RESPECTIVELY.

THE BONDS HAVE **NOT** BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—Not Qualified Tax-Exempt Obligations."

NEW ISSUE-Book-Entry Only

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

$3,585,000
HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3, OF HARRIS AND FORT BEND COUNTIES, TEXAS,
(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)
UNLIMITED TAX REFUNDING BONDS SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas (the "District") and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

Interest accrues from July 1, 2020 **Due: April 1, as shown below**

Principal of the Bonds will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially, Regions Bank, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from July 1, 2020, and will be payable on October 1 and April 1 of each year commencing October 1, 2020, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of $5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

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

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2021	$ 140,000	4.000%	0.950%	41454T JA0	2029	$ 175,000 (a)	2.000%	1.870%	41454T JJ1
2022	115,000	4.000	1.000	41454T JB8	2030	185,000 (a)	2.000	2.000	41454T JK8
2023	125,000	4.000	1.050	41454T JC6	2031	190,000 (a)	2.000	2.100	41454T JL6
2024	130,000	4.000	1.100	41454T JD4	2032	200,000 (a)	2.000	2.200	41454T JM4
2025	140,000	4.000	1.180	41454T JE2	2033	205,000 (a)	2.000	2.300	41454T JN2
2026	150,000	4.000	1.320	41454T JF9	2034	755,000 (a)	2.000	2.340	41454T JP7
2027	160,000 (a)	3.000	1.430	41454T JG7	2035	745,000 (a)	2.000	2.390	41454T JQ5
2028	170,000 (a)	3.000	1.500	41454T JH5					

(a) Bonds maturing on or after April 1, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on April 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
(c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

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

SAMCO Capital

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056 upon payment of the costs of duplication therefor.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of $3,573,886.55 (representing the par amount of the Bonds of $3,585,000.00, plus a net premium on the Bonds of $22,262.05, less an Underwriter's discount of $33,375.50) plus accrued interest. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING—Sources and Uses of Funds."

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

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

The Issuer... Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas (the "District"), a political subdivision of the State of Texas, is located in Harris and Fort Bend Counties, Texas. See "THE DISTRICT."

The Issue... $3,585,000 Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas, Unlimited Tax Refunding Bonds, Series 2020, dated July 1, 2020 (the "Bonds"). Interest on the Bonds will accrue from July 1, 2020, and will be payable on April 1 and October 1 of each year commencing October 1, 2020 until maturity or prior redemption. The Bonds mature serially on April 1 in each year from 2021 through 2035, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page hereof. The Bonds maturing on April 1, 2027, are subject to optional redemption, in whole or, from time to time, in part, on April 1, 2026, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If less than all the Bonds are redeemed, the amounts thereof to be redeemed shall be selected by the District in integral multiples of $5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC, as defined herein, in accordance with its procedures. The Bonds will be issued in fully registered form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS."

Book-Entry Only... The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

Authority for Issuance… The Bonds are the third series of unlimited tax refunding bonds issued by the District. At elections held on May 6, 2000, and February 7, 2004, voters of the District authorized the issuance of unlimited tax refunding bonds in the principal amounts of $37,000,000 and $25,000,000, respectively, resulting in a total maximum aggregate principal amount of $62,000,000, of which $60,347,874.25 principal amount will remain authorized but unissued after issuance of the Bonds. The Bonds are issued by the District pursuant to said elections and to the terms and provisions of the Bond Order (as herein defined); Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended and City of Houston Ordinance No. 97-416;. See "THE BONDS—Authority for Issuance" and "—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."

Source of Payment… The Bonds and the Remaining Outstanding Bonds (as hereinafter defined) are payable from a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. See "THE BONDS—Source and Security for Payment."

Payment Record... The District has previously issued $44,535,000 principal amount of unlimited tax bonds in seven series and $10,565,000 principal amount of unlimited tax refunding bonds in two series (collectively, the "Previously Issued Bonds"). As of April 2, 2020, a total of $37,705,000 principal amount of such bonds is outstanding (the "Outstanding Bonds"). The District has timely paid its debt service on the Previously Issued Bonds.

Future Debt… The District's Board of Directors has authorized preparation of a bond application in the approximate amount of $12,000,000, which will be combined with surplus funds from both the District's Construction Fund and Operating Fund to fund reimbursements to developers and to finance the construction of an expansion to the District's wastewater treatment plant and the construction of Water Plant No. 2. It is anticipated that such bonds will be issued in fourth quarter of 2020.

Use of Proceeds… Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund $3,415,000 principal amount of the Outstanding Bonds in order to achieve net savings in the District's annual debt service expense. See “PLAN OF FINANCING.”

Not Qualified Tax-Exempt Obligations… The District has not designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Not Qualified Tax-Exempt Obligations.”

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

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

Bond Counsel… Schwartz, Page & Harding, L.L.P., Houston, Texas.

Special Tax Counsel… McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

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

Financial Advisor… Masterson Advisors LLC, Houston, Texas.

Paying Agent/Registrar… Regions Bank, Houston, Texas.

Escrow Agent… Regions Bank, Houston, Texas.

Verification Agent… Public Finance Partners LLP, Minneapolis, Minnesota.

INFECTIOUS DISEASE OUTLOOK (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.

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The District includes a significant amount of commercial and retail property and the owners of such property have reported that there have been delinquencies in rental payments as a result of COVID-19. 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 Outlook (COVID-19)."

THE DISTRICT

Description... The District is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, a predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or "Commission"), dated January 28, 1982. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 530 acres of land. See "THE DISTRICT."

Location… The District is located in Harris and Fort Bend Counties, approximately 25 miles west of the central downtown business district of the City of Houston. The District lies south of Interstate 10 West, and east and north of Katy-Fort Bend Road. The District is located within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. See "THE DISTRICT."

Extreme Weather Events… 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 Environmental Development Partners, LLC (the "Operator") and Van De Wiele and Vogler, Inc. (the "Engineer"), there was no interruption of water and sewer service as a result of Hurricane Harvey and the District's system did not sustain any material damage from Hurricane Harvey. The District is not aware of any homes or other improvements within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

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

Status of Development…............... Approximately 139 acres of land within the District has been developed into Lakes of Grand Harbor, Sections One, Two and Three, Estates of Grand Harbor, Section One and Grand Enclave, which collectively encompass 490 single-family residential lots.

Approximately 22 acres of land in the District has been developed as The Towns at Seville, a gated townhome development with 107 individually owned lots.

As of May 6, 2020, there were 595 completed and occupied homes and 2 homes completed, but vacant.

The Camden Grand Harbor Apartments have been constructed on approximately 12 acres of land and include 300 apartment units. According to the Camden Grand Harbor Apartments, as of March, 2020, the complex was 97% occupied.

The Olympus at Katy Ranch Apartments, a 260-unit apartment complex, has been constructed as a part of Katy Ranch Crossing, on approximately 15 acres of land. According to the Olympus at Katy Ranch Apartments, as of March, 2020, the complex was 94% occupied.

A second apartment complex in Katy Ranch Crossing, the Crossing at Katy Ranch, a 318-unit complex, has been constructed on approximately 14 acres of land. According to the Crossing at Katy Ranch, as of March, 2020, the complex was 95% occupied.

The Elva Apartments, a 389-unit apartment complex, has been constructed on approximately 18 acres. According to the Elva Apartments, as of March, 2020, the complex was 95% occupied.

The Cape at Grand Harbor, which is located on approximately 14 acres of land, has a total of 324 units. According to the Cape at Grand Harbor, as of March, 2020, the complex was 94% occupied.

The Dolce Regalia at Bella Terra Apartments, has been constructed on approximately 9 acres (227 units). According to the Dolce Regalia at Bella Terra Apartments, as of March, 2020, the complex was 91% occupied.

The Watercrest at Katy Senior Apartment Project, developed by CHP Watercrest at Katy TX Owner, LLC, has been constructed on an approximately 13-acre tract of land and includes 212 apartment units. As of March, 2020, the complex was 90% occupied.

Approximately 4 acres of land in the District have been developed as the Legacy at Falcon Point assisted living facility. The Legacy at Falcon Point is a two-story, 104-bed (82 room) assisted living and memory care facility.

Approximately 3 acres have been developed in the District as Falcon Ridge Office Condos as an office park.

The Caydance Assisted Living and Memory Care Facility, a 97-bed (92 room) facility, has been completed on a 5-acre site. As of March, 2020, the complex was 87% occupied.

Approximately 15 acres of land have been developed for the following commercial purposes: The Grand Harbor Commercial Center has been constructed on approximately 1.26 acres and includes a hair salon, a nail salon, a dry cleaners, a donut shop and a dental office. The Mission at Katy Mills Commercial Center has been constructed on approximately 5 acres and includes a restaurant and a Meineke Car Care Center. The Kiddie Academy has been constructed on approximately 2 acres of land. Rover Oaks West, a dog boarding and daycare facility, has been constructed on approximately 4 acres of land. The Canine Country Club, a dog boarding, training, grooming and daycare facility has been constructed on approximately 3 acres of land.

A 210,000 square foot retail development (6 buildings), a part of Katy Ranch Crossing, has been constructed on approximately 27 acres. Main Event Entertainment, Goodwill Industries, Boot Barn, Spec’s Liquor and Fine Foods, Dollar Tree, Guitar Center, a dental clinic, several small retail stores and several restaurants are located in the development. As of June 1, 2020, this phase of retail development is 95% leased by tenants. The second phase of the retail development in Katy Ranch Crossing (“Katy Ranch Phase 2”) has been constructed on approximately 11 acres. The second phase includes Altitude Trampoline Park, Rustic Mile Furniture, Bicycle World, IHop and other restaurants and retail businesses. Katy Ranch Phase 2 consists of 153,000 square feet of retail space (3 buildings) and is currently 90% leased. The third phase of the retail development, has been constructed on approximately 8 acres and includes 115,000 square feet of retail development in Katy Ranch Crossing (“Katy Ranch Phase 3”). Tenants include Floor & Décor and DaVita Dialysis Center. An Integrity Bank recently has been constructed on approximately 1 acre of land. The fourth phase of retail development in Katy Ranch Crossing (“Katy Ranch Phase 4”) has been constructed on approximately 21 acres of land and includes approximately 250,000 square feet of retail development, including Northern Tool, PGA Tour Superstore, Vortex Grill Sports Bar, Smoothie King, Sushi Sakura Express and Bricks and Toys.

A 6-story office building has been constructed with 150,000 square feet of office space and an adjacent parking garage located on approximately 6 acres of land in Katy Ranch Crossing. Approximately 150,000 square feet of the office building are leased. A second office building with approximately 150,000 square feet of office space is under construction on the same 6-acre tract of land. Completion is expected by August, 2020. There remains approximately 5 developable acres in Katy Ranch Crossing which have water, sewer and drainage facilities available but have no above-ground improvements constructed.

A retail center has been constructed on approximately 3 acres of land in I-10 Bella Terra which includes a Robert’s Carpet store. A barbeque restaurant has been constructed on approximately 2 acres of land. A Tru by Hilton Hotel, which includes 105 guest rooms, has been constructed on approximately 2 acres of land. Harris County Emergency Services District No. 48 has constructed a fire station on approximately 3 acres of land, which is exempt from property taxes.

The Falcon Crest office park with individual professional buildings has been constructed on a 3-acre and 2-acre site. A medical office building has been constructed on one acre of a 2-acre tract of land. The Gastro-Texas Surgery Center has been constructed on a 1-acre tract of land. There are three gas station convenience stores which have been constructed on 4 acres of land.

Water, sewer and drainage facilities to serve approximately 13-acres along Kingsland Blvd. have been constructed, but no above ground improvements have been constructed.

The Katy Community Fellowship Church has been constructed on an approximately 5-acre tract of land in the District. The Church is exempt from taxation.

In addition to the development described above, the District has approximately 95 acres of land contained in easements, rights-of-way, detention ponds and central utility plant sites. There are approximately 43 acres of developable land in the District not currently provided with water distribution, wastewater collection and storm drainage facilities.

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	$650,016,050	(a)
2020 Preliminary Taxable Assessed Valuation	$739,819,955	(b)
Gross Direct Debt Outstanding	$37,875,000	(c)
Estimated Overlapping Debt	31,653,017	(d)
Gross Direct Debt and Estimated Overlapping Debt	$69,528,017	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	5.83%	
2020 Preliminary Taxable Assessed Valuation	5.12%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation	10.70%	
2020 Preliminary Taxable Assessed Valuation	9.40%	
Debt Service Funds Available as of May 26, 2020	$2,928,478	
Operating Funds Available as of May 26, 2020	$12,572,023	(e)
Capital Projects Funds Available as of May 26, 2020	$1,154,798	(f)
2019 Debt Service Tax Rate	$0.46	
2019 Maintenance Tax Rate	0.27	
2019 Total Tax Rate	$0.73	
Average Annual Debt Service Requirement (2020-2041)	$2,396,839	(g)
Maximum Annual Debt Service Requirement (2021)	$2,913,456	(g)
Tax Rates Required to Pay Average Annual Debt Service (2020-2041) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	$0.39	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	$0.35	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation	$0.48	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	$0.42	(h)
Status of Development as of May 6, 2020:		
Completed and Occupied Single Family Homes	595	
Completed and Unoccupied Single Family Homes	2	
Commercial Connections	56	
Other Connections	44	
Apartment Connections (2,230 Units)	9	
Estimated Population	6,543	(i)

(a) The Harris County Appraisal District (the "HCAD") has certified $641,226,121 of taxable value on the properties within the District located in Harris County. The Fort Bend Central Appraisal District ("FBCAD") has certified $8,789,929 of taxable value on the properties within the District located in Fort Bend County. The certified value in Harris County plus the certified value in Fort Bend County results in a total value of $650,016,050. See "TAX PROCEDURES."

(b) Provided by HCAD and FBCAD as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. Includes estimate from HCAD of $737,207,140 which includes personal property value from 2019 and estimate from FBCAD of $2,612,815, which total amount includes a reduction of $6,177,114 as suggested by FBCAD in anticipation of higher appeals due to COVID-19. See "TAXING PROCEDURES."

(c) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."

(d) See "FINANCIAL STATEMENT (UNAUDITED)—Estimated Overlapping Debt".

(e) Includes approximately $2,170,000 in developer advanced funds for future water plant improvements and wastewater treatment plant expansion. The District anticipates using a portion of these funds for future water plant improvements and a wastewater treatment plant expansion.

(f) The District anticipates using most of these funds for future water plant improvements and a wastewater treatment plant expansion.

(g) See "PLAN OF FINANCING—Debt Service Requirements."

(h) See "TAX DATA—Tax Adequacy Debt Service" and "INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rate".

(i) Based upon 3.5 persons per occupied single-family residence and 2 persons per apartment unit.

OFFICIAL STATEMENT

$3,585,000

HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 3, OF HARRIS AND FORT BEND COUNTIES, TEXAS

(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)

UNLIMITED TAX REFUNDING BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas (the "District") of its $3,585,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

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

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of the cost of duplication.

PLAN OF FINANCING

Purpose

The proceeds of the Bonds will be used to refund and defease the outstanding portion of one series of the District's Outstanding Bonds as listed below in "Refunded Bonds" totaling $3,415,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds" herein. A total of $34,290,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

The following table lists the original principal amount and the current principal balance of the Outstanding Bonds as of April 2, 2020, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2012	$ 3,925,000	$ 3,415,000	$ 3,415,000	$ -
2013	6,270,000	5,260,000	-	5,260,000
2014	7,280,000	6,560,000	-	6,560,000
2015 (a)	6,765,000	5,600,000	-	5,600,000
2015A	9,850,000	8,350,000	-	8,350,000
2017	5,680,000	4,880,000	-	4,880,000
2019 (a)	3,800,000	3,640,000	-	3,640,000
Total	$ 43,570,000	$ 37,705,000	$ 3,415,000	$ 34,290,000
The Bonds				3,585,000
The Bonds and Remaining Outstanding Bonds				$ 37,875,000

(a) Unlimited Tax Refunding Bonds.

Refunded Bonds

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

Maturity Date April 1	Series 2012	
2021	$ 105,000	(a)
2022	110,000	(a)
2023	115,000	(b)
2024	120,000	(b)
2025	130,000	(b)
2026	135,000	(c)
2027	145,000	(c)
2028	155,000	(d)
2029	160,000	(d)
2030	170,000	(e)
2031	180,000	(e)
2032	190,000	(f)
2033	200,000	(f)
2034	750,000	(g)
2035	750,000	(g)
	$ 3,415,000	

Redemption Date: July 27, 2020

(a) Consisting of a term bond in the aggregate amount of $215,000, maturing April 1, 2022 and subject to mandatory redemption.
(b) Consisting of a term bond in the aggregate amount of $365,000, maturing April 1, 2025 and subject to mandatory redemption.
(c) Consisting of a term bond in the aggregate amount of $280,000, maturing April 1, 2027 and subject to mandatory redemption.
(d) Consisting of a term bond in the aggregate amount of $315,000, maturing April 1, 2029 and subject to mandatory redemption.
(e) Consisting of a term bond in the aggregate amount of $350,000, maturing April 1, 2031 and subject to mandatory redemption.
(f) Consisting of a term bond in the aggregate amount of $390,000, maturing April 1, 2033 and subject to mandatory redemption.
(g) Consisting of a term bond in the aggregate amount of $1,500,000, maturing April 1, 2035 and subject to mandatory redemption.

Sources and Uses of Funds

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

Sources of Funds:	
Principal Amount of the Bonds	$3,585,000.00
Net Premium on the Bonds	22,262.05
Total Sources of Funds	$3,607,262.05
Uses of Funds:	
Deposit to Escrow Fund	$3,452,196.53
Issuance Expenses and Underwriters' Discount (a)	155,065.52
Total Uses of Funds	$3,607,262.05

(a) Includes municipal bond insurance premium.

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption dates, from funds to be deposited with Regions Bank, Houston, Texas, as escrow agent (the "Escrow Agent").

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be July 23, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Defeasance of the Refunded Bonds

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

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the debt service on the Bonds ($3,585,000 principal amount).

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds Principal	Interest	Total	Total Debt Service Requirements
2020	$ 2,903,231	$ 57,719		$ 22,750	$ 22,750	$ 2,868,263
2021	2,904,119	218,863	$ 140,000	88,200	228,200	2,913,456
2022	2,901,900	220,638	115,000	83,100	198,100	2,879,363
2023	2,884,981	222,263	125,000	78,300	203,300	2,866,019
2024	2,864,806	223,738	130,000	73,200	203,200	2,844,269
2025	2,870,544	229,988	140,000	67,800	207,800	2,848,356
2026	2,859,469	231,013	150,000	62,000	212,000	2,840,456
2027	2,847,413	236,813	160,000	56,600	216,600	2,827,200
2028	2,852,238	242,119	170,000	51,650	221,650	2,831,769
2029	2,847,972	242,000	175,000	47,350	222,350	2,828,322
2030	2,838,816	246,638	185,000	43,750	228,750	2,820,928
2031	2,835,188	250,950	190,000	40,000	230,000	2,814,238
2032	2,823,038	254,700	200,000	36,100	236,100	2,804,438
2033	2,817,441	257,875	205,000	32,050	237,050	2,796,616
2034	2,857,550	790,781	755,000	22,450	777,450	2,844,219
2035	2,837,194	763,594	745,000	7,450	752,450	2,826,050
2036	2,300,375	-	-	-	-	2,300,375
2037	1,462,231	-	-	-	-	1,462,231
2038	1,445,369	-	-	-	-	1,445,369
2039	1,422,156	-	-	-	-	1,422,156
2040	568,350	-	-	-	-	568,350
2041	549,450	-	-	-	-	549,450
Total	$ 53,493,828	$ 4,689,688	$ 3,585,000	$ 812,750	$ 4,397,750	$ 53,201,891

Maximum Annual Debt Service Requirement (2021) $2,913,456
Average Annual Debt Service Requirements (2020-2041) $2,396,839

THE BONDS

General

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

Description

The Bonds will be dated July 1, 2020, with interest payable on October 1, 2020, and on each April 1 and October 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from July 1, 2020, and thereafter, from the most recent Interest Payment Date. The Bonds mature on April 1 of the years and in the amounts and accrue interest at the rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of $5,000 or any integral multiple of $5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the Book-Entry-Only System described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At elections held on May 6, 2000, and February 7, 2004, voters of the District authorized the issuance of unlimited tax refunding bonds in the principal amounts of $37,000,000 and $25,000,000, respectively, resulting in a total maximum aggregate principal amount of $62,000,000 for the purpose of refunding outstanding bonds of the District. The Bonds are issued by the District pursuant to said election held on May 6, 2000, to the terms and provisions of the Bond Order, Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended and City of Houston Ordinance No. 97-416.

Source of and Security for Payment

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

Funds

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

Record Date

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

Redemption Provisions

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

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

Method of Payment of Principal and Interest

The Board has appointed Regions Bank, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of $67,450,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District currently has $22,915,000 principal amount of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of $62,000,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. After issuance of the Bonds, the District will have $60,347,874.25 of unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized issuance of a total of $4,925,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, all of which is unissued, and could authorize additional amounts. See "Financing Recreational Facilities" below.

The District's Board of Directors has authorized preparation of a bond application in the approximate amount of $12,000,000, which will be combined with surplus funds from both the District's Construction Fund and Operating Fund to fund reimbursements to developers and to finance the construction of an expansion to the District's wastewater treatment plant and the construction of Water Plant No. 2. It is anticipated that such bonds will be issued in fourth quarter of 2020.

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

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

Financing Road Facilities

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

Financing Recreational Facilities

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

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

At an election held within the District on November 8, 2005, voters of the District authorized a total of $4,925,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities, all of which remains unissued, and could authorize additional amounts. At such November 8, 2005 election, voters of the District also authorized a maintenance tax not to exceed $0.10 per each $100 of assessed valuation for maintenance of recreational facilities.

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

Annexation

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

Consolidation

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

Remedies in Event of Default

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

Defeasance

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Water Commission, a predecessor to the Commission, dated January 28, 1982, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, (except as described below under "Strategic Partnership Agreement") is subject to the continuing supervisory jurisdiction of the Commission.

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

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

Description and Location

The District is located in Harris and Fort Bend Counties, approximately 25 miles west of the central downtown business district of the City of Houston. The District lies south of Interstate 10 West, and east and north of Katy–Fort Bend Road. The District is located within the extraterritorial jurisdiction of the City of Houston and within such portion of the boundaries of the Katy Independent School District. The District consists of approximately 530 acres of land.

Strategic Partnership Agreement

The District and the City have entered into a First Amended and Restated Strategic Partnership Agreement dated effective December 19, 2011 (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules. The procedures for full purpose annexation under the SPA may differ from those otherwise applicable under Chapter 43, Texas Local Government Code, including any requirements for an election. See "THE BONDS—Annexation."

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

Development Agreement

On February 23, 2009, the District entered into a Development Agreement (the "Agreement") with a developer in the District, Katy ABC Properties. The Agreement states that seventy-five percent (75%) of sales tax revenues generated from businesses located within a defined area being developed by Katy ABC Properties (the "Property") and received by the District pursuant to the SPA will be paid to Katy ABC Properties in order to reimburse Katy ABC Properties for construction of certain improvements within the District. The District agrees to make payments to Katy ABC Properties no less frequently than once each calendar quarter beginning in the calendar quarter next following the calendar quarter in which the District first collects District sales tax revenue generated from retail activity within the Property. Payments from the District to Katy ABC Properties will continue until: a) the sum of the payments made by the District to Katy ABC Properties equals the total cost of the projects as determined under the Agreement, or b) the expiration of 15 years from the Effective Date of the Agreement, whichever comes first. Costs paid to Katy ABC Properties also include 7% interest, compounded annually, on the unpaid balance of costs beginning January 1st of the year following completion of the projects. To date, an approximately 210,000 square foot retail center, a 153,000 square foot retail center, a 115,000 square foot retail center and an additional 250,000 square foot retail center have been constructed on the Property. The District began making payments to Katy ABC Properties pursuant to the terms of said agreement in 2013.

Residential Development

Approximately 139 acres of land within the District has been developed into Lakes of Grand Harbor, Sections One, Two and Three, Estates of Grand Harbor, Section One and Grand Enclave, which collectively encompass 490 single-family residential lots.

Approximately 22 acres of land within the District has been developed as The Towns at Seville, a 107 lot individually owned gated townhome development.

As of May 6, 2020, there were 595 completed and occupied homes, and 2 homes completed, but vacant.

Multifamily Development

The Camden Grand Harbor Apartments have been constructed on approximately 12 acres of land and include 300 apartment units. According to the Camden Grand Harbor Apartments, as of March, 2020, the complex was 97% occupied.

The Olympus at Katy Ranch Apartments, a 260-unit apartment complex has been constructed as a part of Katy Ranch Crossing on approximately 15 acres of land. According to the Olympus at Katy Ranch Apartments, as of March, 2020, the complex was 94% occupied.

A second apartment complex in Katy Ranch Crossing, the Crossing at Katy Ranch, a 318-unit complex, has been constructed on approximately 14 acres of land. According to the Crossing at Katy Ranch, as of March, 2020, the complex was 95% occupied.

The Elva Apartments, a 389-unit apartment complex, has been constructed on approximately 18 acres. According to the Elva Apartments, as of March, 2020, the complex was 95% occupied.

The Cape at Grand Harbor, which is located on approximately 14 acres of land, has a total of 324 units. According to the Cape at Grand Harbor, as of March, 2020, the complex was 94% occupied.

The Dolce Regalia at Bella Terra Apartments has been constructed on approximately 9 acres (227 units). According to the Dolce Regalia at Bella Terra Apartments, as of March, 2020, the complex was 91% occupied.

The Watercrest at Katy Senior Apartment Project, developed by CHP Watercrest at Katy TX Owner, LLC, has been constructed on an approximately 13-acre tract of land and includes 212 apartment units. As of March, 2020, the complex was 90% occupied.

Approximately 4 acres of land in the District have been developed as the Legacy at Falcon Point assisted living facility. The Legacy at Falcon Point is a two-story, 104-bed (82 room) assisted living and memory care facility.

Approximately 3 acres of land in the District have been developed as Falcon Ridge Office Condos, an office park.

The Caydance Assisted Living and Memory Care Facility, a 97-bed (92 room) facility, has been completed on a 5-acre site. As of March 2020, the facility was 87% occupied.

Commercial Development

Approximately 15 acres of land have been developed for the following commercial purposes: The Grand Harbor Commercial Center has been constructed on approximately 1.26 acres and includes a hair salon, a nail salon, a dry cleaners, a donut shop and a dental office. The Mission at Katy Mills Commercial Center has been constructed on approximately 5 acres and includes a restaurant and a Meineke Car Care Center. The Kiddie Academy has been constructed on approximately 2 acres of land. Rover Oaks West, a dog boarding and daycare facility, has been constructed on approximately 4 acres of land. The Canine Country Club, a dog boarding, training, grooming and daycare facility has been constructed on approximately 3 acres of land.

A 210,000 square foot retail development (6 buildings), a part of Katy Ranch Crossing, has been constructed on approximately 27 acres. Main Event Entertainment, Goodwill Industries, Boot Barn, Spec's Liquor and Fine Foods, Dollar Tree, Guitar Center, a dental clinic, several small retail stores and several restaurants are located in the development. As of June 1, 2020, this phase of retail development is 95% leased by tenants. The second phase of the retail development in Katy Ranch Crossing ("Katy Ranch Phase 2") has been constructed on approximately 11 acres. The second phase includes Altitude Trampoline Park, Rustic Mile Furniture, Bicycle World, IHop and other restaurants and retail businesses. Katy Ranch Phase 2 consists of 153,000 square feet of retail space (3 buildings) and is currently 90% leased. The third phase of the retail development, has been constructed on approximately 8 acres and includes 115,000 square feet of retail development in Katy Ranch Crossing ("Katy Ranch Phase 3"). Tenants include Floor & Décor and DaVita Dialysis Center. An Integrity Bank recently has been constructed on approximately 1 acre of land. The fourth phase of retail development in Katy Ranch Crossing ("Katy Ranch Phase 4") has been constructed on approximately 21 acres of land and includes approximately 250,000 square feet of retail development, including Northern Tool, PGA Tour Superstore, Vortex Grill Sports Bar, Smoothie King, Sushi Sakura Express and Bricks and Toys. See "INVESTMENT CONSIDERATIONS - Infectious Disease Outlook (COVID-19)".

A 6-story office building has been constructed with 150,000 square feet of office space and an adjacent parking garage located on approximately 6 acres of land in Katy Ranch Crossing. Approximately 150,000 square feet of the office building are leased. A second office building with approximately 150,000 square feet of office space is under construction on the same 6-acre tract of land. Completion is expected by August, 2020. There remains approximately 5 developable acres in Katy Ranch Crossing which have water, sewer and drainage facilities available but have no above-ground improvements constructed.

A retail center has been constructed on approximately 3 acres of land in I-10 Bella Terra which includes a Robert's Carpet store. A barbeque restaurant has been constructed on approximately 2 acres of land. A Tru by Hilton Hotel, which includes 105 guest rooms, has been constructed on approximately 2 acres of land. A credit union has been constructed on 1 acre of land. Harris County Emergency Services District No. 48 has constructed a fire station on approximately 3 acres of land, which exempt from property taxes.

The Falcon Crest office park with individual professional buildings has been constructed on a 3-acre and 2-acre site. A medical office building has been constructed on one acre of a 2-acre tract of land. The Gastro-Texas Surgery Center has been constructed on a 1-acre tract of land. There are three gas station convenience stores which have been constructed on 4 acres of land.

Other Development

The Katy Community Fellowship Church has been constructed on an approximately 5-acre tract of land in the District. Such Church is exempt from taxation.

Undeveloped Acreage

In addition to the development described above, the District has approximately 95 acres of land contained in easements, rights-of-way, detention ponds and central utility plant sites. There are also 13 acres of land with water, sewer, and drainage facilities available with no above-ground improvements. There are approximately 43 acres of developable land in the District not currently provided with water distribution, wastewater collection and storm drainage facilities, all of which as of January 1, 2019, were subject to an agricultural tax exemption.

MANAGEMENT

Board of Directors

The District is governed by the Board, currently consisting of four (4) directors and one vacant position, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms in May of even numbered years only. Two of the members of the Board reside in the District. The other two members own land within the District, subject to a note and deed of trust in favor of a developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	Title	Term Expires
Ron Welch	President	May 2022
Cyndal Porter	Vice President	May 2022
W. Derrell Witt	Secretary	May 2024
Frank Anzalotti	Assistant Secretary	May 2024
Vacant	Assistant Secretary	May 2022

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

Tax Assessor/Collector

Land and improvements in the District are being appraised for taxation by the Harris County Appraisal District. The District contracts with Wheeler & Associates, Inc. to act as Tax Assessor/Collector for the District.

System Operator

The District contracts with Environmental Development Partners, LLC (the “Operator” or “EDP”) for maintenance and operation of the District's system.

Bookkeeper

The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

Engineer

The District’s consulting engineer is Van De Wiele and Vogler, Inc. (the “Engineer”).

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which audited financial statements are filed with the Commission. The financial statements of the District, as of December 31, 2019, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s December 31, 2019, audited financial statements.

Bond Counsel and General Counsel

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

Special Tax Counsel

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

Financial Advisor

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

THE SYSTEM

Regulation

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

Water Distribution and Sanitary Sewer Collection and Drainage System

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions and commercial tracts described under the sections "THE DISTRICT—Residential Development, Multifamily Development, Commercial Development and other Development."

Water Supply

The District owns and operates a water plant with a water well with a rated capacity of 1,200 gallons per minute ("gpm"), three 15,000 gallon hydropneumatic tanks, two 210,000 gallon storage tanks, and booster pump capacity of 4,000 gpm. According to the Engineer, the District's water plant facilities are sufficient to serve 2,000 equivalent single-family connections ("ESFCs"). Cimarron Municipal Utility District and the District have also constructed a joint water plant which provides the District with an additional 633 ESFCs, for a total of 2,633 ESFCs. The District is currently serving approximately 2,511 ESFCs.

The District is in the process of acquiring a site and easements to construct Water Plant No. 2. Design of Water Plant No. 2 has commenced. The District has on hand funds previously advanced by developers to fund a portion of Water Plant No. 2. The District anticipates issuing bonds in late 2020 combined with surplus Construction Funds and Operating Funds to fund the remaining cost of Water Plant No. 2.

The District has an emergency water supply interconnect with Cimarron Municipal Utility District. The District also has an emergency water supply interconnect with Harris – Fort Bend Counties Municipal Utility District No. 1 ("No. 1") and Harris – Fort Bend Counties Municipal Utility District No. 5 ("No. 5").

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is 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, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a rate per 1,000 gallons based on the amount 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, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of $9.00 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.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates the need to continue passing such fees through to its customers in higher water and sewer rates. In the event the Authority fails to reduce groundwater withdrawal to the levels specified in the Regulatory Plan by the deadlines established by the Subsidence District, then the District and others within the Authority's GRP group will be required to pay a disincentive fee on withdrawn groundwater. This fee is expected to be substantial and the District expects it would need to pass such fee through to its customers through higher water and sewer rates or utilize portions of its maintenance tax revenues. This fee would be in addition to the Authority's fee.

Wastewater Treatment Facilities

Wastewater treatment for the District is provided by a 670,000 gallon per day ("gpd") permanent wastewater treatment plant. According to the District's engineer, the existing wastewater treatment plant is sufficient to serve 2,310 ESFCs. The District is currently serving approximately 1,950 ESFCs. Several landowners and developers have advanced funds for the expansion to the permanent wastewater treatment plant. Design of an expansion to the wastewater treatment plant is underway. The District is currently operating the wastewater treatment plant at approximately 58% of capacity. It is anticipated that the District will issue bonds during 2020 to fund a portion of the costs to expand the wastewater treatment plant combined with the use of surplus Operating Funds and Construction Funds.

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. The District's drainage system has been designed and constructed to all current standards. According to the Engineer, no areas in the District are located within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS."

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of 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.

FINANCIAL STATEMENT (UNAUDITED)

2019 Certified Taxable Assessed Valuation	$650,016,050	(a)
2020 Preliminary Taxable Assessed Valuation	$739,819,955	(b)
Gross Direct Debt Outstanding	$37,875,000	(c)
Estimated Overlapping Debt	31,653,017	(d)
Total Gross Direct Debt and Estimated Overlapping Debt	$69,528,017	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	5.83%	
2020 Preliminary Taxable Assessed Valuation	5.12%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation	10.70%	
2020 Preliminary Taxable Assessed Valuation	9.40%	

Area of District – 529.7962 Acres
Estimated 2019 Population – 6,543 (e)

(a) The Harris County Appraisal District (the "HCAD") has certified $641,226,121 of taxable value on the properties within the District located in Harris County. The Fort Bend Central Appraisal District ("FBCAD") has certified $8,789,929 of taxable value on the properties within the District located in Fort Bend County. The certified value in Harris County, plus the certified value in Fort Bend County results in a total value of $650,016,050. See "TAX PROCEDURES."

(b) Provided by HCAD and FBCAD as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. Includes estimate from HCAD of $737,207,140 which includes personal property value from 2019 and estimate from FBCAD of $2,612,815, which total amount includes a reduction of $6,177,114 as suggested by FBCAD in anticipation of higher appeals due to COVID-19. See "TAXING PROCEDURES."

(c) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."

(d) See "FINANCIAL STATEMENT (UNAUDITED)—Estimated Overlapping Debt" .

(e) Based upon 3.5 persons per occupied single-family residence and 2 persons per apartment unit.

Cash and Investment Balances (unaudited as of May 26, 2020)

Operating Fund	Cash and Temporary Investments	$12,0572,023 (a)
Construction Fund	Cash and Temporary Investments	$ 1,154,798 (b)
Debt Service Fund	Cash and Temporary Investments	$ 2,928,478

(a) Includes approximately $2,170,000 in developer advanced funds for future water plant improvements and a wastewater treatment plant expansion. The District anticipates using a portion of these funds for future water plant improvements and a wastewater treatment plant expansion.

(b) The District anticipates using most of these funds for future water plant improvements and a wastewater treatment plant expansion.

District Investment Policy

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

WATER AND SEWER OPERATIONS

General

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

Waterworks and Sewer System Operating Statement

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

	Fiscal Year Ended December 31				
	2019	2018	2017	2016	2015
Revenues					
Water Service	$ 601,827	$ 553,089	$ 614,898	$ 521,649	$ 588,123
Sewer Service	501,393	506,776	527,664	438,894	517,497
Property Taxes	1,709,263	1,159,504	1,009,199	1,179,622	463,511
Penalties and Interest	23,305	28,019	30,572	30,390	24,839
Tap Connection and Inspection Fees	317,247	137,670	149,043	332,585	408,070
Regional Water Authority Fees	571,985	519,832	488,076	346,161	275,433
City of Houston Sales Tax Rebate	508,510	484,843	357,623	241,973	181,502
Intergovernmental Revenue	25,956	27,993	23,100	18,900	11,500
Miscellaneous	-	-	-	-	34
Investment Earnings	240,314	132,311	55,381	23,914	17,732
Total Revenues	$ 4,499,800	$3,550,037	$ 3,255,556	$ 3,134,088	$ 2,488,241
Expenditures					
Purchased Services	$ 64,891	$ 18,531	$ 20,461	$ 48,013	$ 35,454
Professional Fees	264,742	233,224	254,079	312,435	287,774
Contracted Services	633,485	462,870	453,317	497,152	437,387
Repairs and Maintenance	339,802	303,298	370,390	300,876	286,949
Temporary Lease	15,000	13,700	15,000	15,000	15,000
Utilities	88,093	89,180	85,055	86,280	86,467
Regional Water Authority Fees	534,532	495,879	416,694	317,196	261,197
SPA Reimbursement	307,858	312,965	213,204	154,115	115,269
Administrative	74,280	69,471	66,742	64,740	63,419
Other	27,707	19,929	29,099	30,850	18,634
Capital Outlay	155,674	126,645	93,940	867,862	-
Interest and fees	22,355	23,556	16,048	248,202	8,676
Total Expenditures	$ 2,528,419	$2,169,248	$ 2,034,029	$ 2,942,721	$ 1,616,226
Net Revenues	$ 1,971,381	$1,380,789	$ 1,221,527	$ 191,367	$ 872,015
Other Financing Sources/(Uses)					
Repayment of Operating Advances	$ -	$ -	$ -	$ (6,656)	$ -
Insurance Proceeds	-	37,765	-	-	-
Interfund Transfer	-	-	22,156	532,436	-
Total Other Sources/(Uses)	$ -	$ 37,765	$ 22,156	$ 525,780	$ -
Fund Balance (Beginning of Year)	$ 8,512,205	$7,093,651	$ 5,849,968	$ 5,132,821	$ 4,260,806
Fund Balance (End of Year)	$ 10,483,586	$8,512,205	$ 7,093,651	$ 5,849,968	$ 5,132,821

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Fort Bend County…………………………………………	$ 594,872,527	2/29/2020	0.04%	$ 237,949
Harris County……………………………………………	1,885,182,125	2/29/2020	0.13%	2,450,737
Harris County Flood Control District……………………	83,075,000	2/29/2020	0.13%	107,998
Harris County Hospital District…………………………	55,005,000	2/29/2020	0.13%	71,507
Harris County Dept. of Education………………………	6,320,000	2/29/2020	0.13%	8,216
Port of Houston Authority………………………………	572,569,397	2/29/2020	0.13%	744,340
Katy Independent School District………………………	1,752,016,959	2/29/2020	1.60%	28,032,271
Total Estimated Overlapping Debt………………………				$ 31,653,017
The District……………………………………………	37,875,000 (a)	Current	100.00%	37,875,000
Total Direct and Estimated Overlapping Debt…………				$ 69,528,017

Ratio of Direct and Estimated Overlapping Debt to 2019 Certified Taxable Assessed Valuation………………………………	10.70%
Ratio of Direct and Estimated Overlapping Debt to 2020 Preliminary Taxable Assessed Valuation……………………………	9.40%

(a) After issuance of the Bonds.

Overlapping Taxes for 2019

	2019 Tax Rate per $100 of Taxable Assessed Valuation	2019 Tax Rate per $100 of Taxable Assessed Valuation
Fort Bend County………………………………	$ 0.46000	
Harris County (a)………………………………		$ 0.61670
Katy Independent School District………………	1.44310	1.44310
Harris County ESD No. 48………………………		0.10000
Total Overlapping Tax Rate……………………	$ 1.90310	$ 2.15980
The District……………………………………	0.73000	0.73000
Total Tax Rate…………………………………	$ 2.63310	$ 2.88980

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

TAX DATA

Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of April 30, 2020	
				Amount	Percent
2015	$ 349,931,303	$0.970	$ 3,392,928	$ 3,389,115	99.89%
2016	431,850,223	0.920	3,973,019	3,967,935	99.87%
2017	497,682,635	0.820	4,080,994	4,075,853	99.87%
2018	570,345,301	0.810	4,619,792	4,604,097	99.66%
2019	649,897,254	0.730	4,744,245	4,651,166	98.04%

Taxes are due upon receipt of bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed . No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	$ 0.460	$ 0.500	$ 0.610	$ 0.680	$ 0.660
Maintenance and Operations	0.270	0.310	0.210	0.240	0.310
Total	$ 0.730	$ 0.810	$ 0.820	$ 0.920	$ 0.970

Tax Rate Limitations

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	$1.50 per $100 Assessed Valuation
Recreational:	$0.10 per $100 Assessed Valuation for maintenance of recreational facilities.

Debt Service Tax

The Board will covenant in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt. The District levied a debt service tax of $0.46 for 2019.

Maintenance Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On May 6, 2000, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed $1.50 per $100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any additional unlimited tax bonds which may be issued in the future. The District levied a tax rate of $0.27 for maintenance purposes in tax year 2019. Additionally, on November 8, 2005, voters in the District authorized the Board to levy a maintenance tax in an amount not to exceed $0.10 per $100 of assessed valuation for purposes of maintaining recreational facilities in the District. To date, the District has not levied a maintenance tax for such purposes and currently has no plans to levy such a tax.

Principal Taxpayers

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

Taxpayer	Type of Property	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
TPG Katy Crossing Ltd.	Land and Improvements	$ 42,859,531	6.59%
BRE Lenox Trails MF Owner Lo	Land and Improvements	42,252,235	6.50%
Bluecap Ltd.	Land and Improvements	38,063,498	5.86%
EHAJ Ltd.	Land and Improvements	37,994,339	5.85%
Dolce Living at Grand Harbour LLC	Land and Improvements	37,458,116	5.76%
WW Katy Ranch Road LP	Land and Improvements	35,100,000	5.40%
CHP Watercrest At Katy TX Owner LLC	Land and Improvements	30,430,066	4.68%
Fund Grand Harbor LLC	Land and Improvements	30,423,236	4.68%
Katy Ranch Offices LP	Land and Improvements	29,341,618	4.51%
Bella Terra Katy Phase I LLC	Land and Improvements	27,507,960	4.23%
Total		$ 351,430,599	54.07%

Summary of Assessed Valuation

The following breakdown of the 2015 through 2019 Certified Taxable Assessed Valuations has been provided by the District's Tax Assessor/Collector based on information contained in the 2015 through 2019 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown related to the 2020 Preliminary Taxable Assessed Valuation is not available.

	2019	2018	2017	2016	2015
Land	$ 156,357,361	$ 141,900,286	$ 138,625,227	$ 123,200,060	$ 116,313,381
Improvements	486,521,923	424,401,029	363,562,221	304,897,350	234,540,055
Personal Property	26,535,478	21,884,635	12,877,554	11,293,938	5,451,330
Less: Exemptions	(19,517,508)	(17,840,649)	(17,382,367)	(7,541,125)	(6,373,463)
Total	$ 649,897,254	$ 570,345,301	$ 497,682,635	$ 431,850,223	$ 349,931,303

Tax Adequacy for Debt Service

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

Average Annual Debt Service Requirement (2020-2041)... $2,396,839
$0.39 Tax Rate on the 2019 Certified Taxable Assessed Valuation $2,408,309
$0.35 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation................................... $2,459,901

Maximum Annual Debt Service Requirement (2021)... $2,913,456
$0.48 Tax Rate on the 2019 Certified Taxable Assessed Valuation $2,964,073
$0.42 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation................................... $2,951,882

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The District is located in Harris County and Fort Bend County. The Harris County Appraisal District has the responsibility for appraising property in the District located within Harris County and the Fort Bend Central Appraisal District has the responsibility for appraising property in the District located within Fort Bend County. The Harris County Appraisal District and the Fort Bend Central Appraisal District are collectively referred to as the "Appraisal Districts." Such appraisal values are subject to review and change by the Harris County Appraisal Review Board or the Fort Bend County Appraisal Review Board, as applicable. Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of said appraisal review boards by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by either the Harris County Appraisal District or the Fort Bend Central Appraisal District, as applicable, and approved by the applicable appraisal review board, must be used by each taxing jurisdiction in establishing its tax roll and rate. The District is eligible, along with all other conservation and reclamation districts within Harris County and Fort Bend County, to participate in the nomination of and vote for a member of the Board of Directors of each county's respective appraisal district.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of $25,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $5,000 and $12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of (i) a member of the armed forces or (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than $5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2020 tax year, the District has granted a 10% general residential homestead exemption; provided, however, that no such exemption shall be less than $5,000. The total value of the general residential homestead exemption for 2019 was $5,516,225.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstance, an election would be required to determine whether to approve the adopted tax rate. See "ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2019, approximately 43 acres of the land within the District are designated for agricultural use, open space, inventory deferment or timberland.

Tax Abatement

The City of Houston, Harris County and Fort Bend County may designate all or part of the District as a reinvestment zone, and the District, Harris County, Fort Bend County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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

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

Low Tax Rate Districts

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

Developed Districts

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

Developing Districts

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

The District

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

District’s Rights in the Event of Tax Delinquencies

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

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

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outlook (COVID-19)

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

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

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The District includes a significant amount of commercial and retail property and the owners of such property have reported that there have been delinquencies in rental payments as a result of COVID-19.The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

Potential Effects of Oil Price Declines on the Houston Area

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

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, 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 the Engineer, there was no interruption of water and sewer service as a result of Hurricane Harvey and the District's system did not sustain any material damage from Hurricane Harvey. The District is not aware of any homes or other 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.

Specific Flood Type Risks

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

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

Dependence on Principal Taxpayers

The ten principal taxpayers represent $351,430,599 or approximately 54.09% of the 2019 Certified Taxable Assessed Valuation of $650,016,050 which represents ownership as of January 1, 2019. See "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy a higher tax rate or use other available funds for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Bond Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Taxable Assessed Valuation of the District (see "FINANCIAL STATEMENT") is $650,016,050. After issuance of the Bonds, the maximum annual debt service requirement will be $2,913,456 (2021) and the average annual debt service requirement will be $2,396,839 (2020-2041). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of $0.48 per $100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of $2,913,456 and a tax rate of $0.39 per $100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of $2,396,839. The 2020 Preliminary Taxable Assessed Valuation of the District is $739,819,955 and reduces the above calculations to $0.42 and $0.35, respectively. See "PLAN OF FINANCING—Debt Service Requirements." Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2019 Certified Taxable Assessed Valuation or the 2020 Preliminary Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District reserves in the Bond Order the right to issue the remaining $60,347,874.25 in principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding the outstanding bonds of the District, $22,915,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, and $4,925,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing recreational facilities. The District anticipates reimbursing developers for advances made to fund future water and wastewater capacity. In addition, the District may issue additional bonds approved by District voters in future elections. See "THE BONDS—Issuance of Additional Debt," "Financing Road Facilities," and "Financing Parks and Recreational Facilities." The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued however, the principal amount of bonds issued to acquire or construct parks and recreational facilities may not exceed 1% of the District's certified value. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The Engineer has stated that the District's authorized but unissued bonds will be adequate, under present land use projections, to finance such improvements. The District is currently anticipating issuing additional bonds in the fourth quarter of 2020 in the approximate amount of $12,000,000.

In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tax Collections Limitations

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Future and Proposed Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

Marketability

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign 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. S&P has also assigned an underlying rating of "BBB+" to the Bonds An explanation of the ratings may be obtained from S&P.

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 if, in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

Capitalization of BAM

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

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

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

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

Additional Information Available from BAM

Credit Insights Videos: For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/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.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. The District will also furnish the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, to the effect that interest on the Bonds is excludable from gross income of the owners for federal income tax purposes under existing law and not subject to the alternative minimum tax on individuals.

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

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "PLAN OF FINANCING—Escrow Agreement," and "—Defeasance of Refunded Bonds" (but only insofar as such section relates to the legal opinion of Bond Counsel), "THE BONDS," "THE DISTRICT—General", "—Strategic Partnership Agreement," "—Development Agreement," and "–MANAGEMENT—Bond Counsel and General Counsel," "TAX PROCEDURES," and "LEGAL MATTERS—Legal Opinions" (but only insofar as such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. In its capacity as Special Tax Counsel, McCall, Parkhurst & Horton L.L.P, Dallas, Texas, has reviewed the information appearing in this Official Statement under the caption "LEGAL MATTERS—Legal Opinions" (insofar as such section relates to the opinion of Special Tax Counsel) and "TAX MATTERS" solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

Opinion

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The Underwriter has represented that the initial public offering price to be paid for the Bonds (the "Original Issue Discount Bonds"), as stated on the cover of the Official Statement, is less than the principal amount thereof. As such, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds.

Under existing law, such an 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 for which such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM OR THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

State, Local and Foreign Taxes

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

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Paying Agent as per the Escrow Agreement for the payment of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

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

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

"THE DISTRICT" and "THE SYSTEM"—Van De Wiele & Vogler, Inc. "THE BONDS" and "LEGAL MATTERS – Legal Opinions" (insofar as such section relates to the legal opinion of Bond Counsel and Special Tax Counsel)—Schwartz, Page & Harding, L.L.P. and McCall, Parkhurst & Horton L.L.P., as applicable; "TAX MATTERS"— McCall, Parkhurst & Horton L.L.P.; "FINANCIAL STATEMENT" and "TAX DATA"— Harris County Appraisal District and Fort Bend Central Appraisal District, Wheeler & Associates, Inc. and the Municipal Advisory Council.

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

Underwriter

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

Consultants

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

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" (as it relates to District facilities) has been provided by Van De Wiele and Vogler, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

Auditor: The financial statements of the District, as of December 31, 2019, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's December 31, 2019 audited financial statements.

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

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris-Fort Bend Counties Municipal Utility District No. 3, of Harris and Fort Bend Counties, Texas, as of the date shown on the cover page.

/s/ Ron Welch
President, Board of Directors

ATTEST:

/s/ W. Derrell Witt
Secretary, Board of Directors

APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the year ended December 31, 2019

HARRIS-FORT BEND COUNTIES
MUNICIPAL UTILITY DISTRICT NO. 3

HARRIS AND FORT BEND COUNTIES, TEXAS

FINANCIAL REPORT

December 31, 2019

Table of Contents

McGRATH & CO., PLLC
Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Harris - Fort Bend Counties Municipal Utility District No. 3
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris - Fort Bend Counties Municipal Utility District No. 3, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 principles 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 to provide a basis for our audit opinions.

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Opinion

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 Harris - Fort Bend Counties Municipal Utility District No. 3, as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in conformity 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 information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGrath & Co, PLLC

Houston, Texas
April 27, 2020

Management's Discussion and Analysis

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Using this Annual Report

Within this section of the financial report of Harris - Fort Bend Counties Municipal Utility District No. 3 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at December 31, 2019, was negative $289,690. The District's net position is negative because the District incurred an obligation to reimburse the developers for the construction of storm sewer systems that are included within public road rights-of-way dedicated to and operated and maintained by Harris County. See Note 6 for additional information regarding the District's obligations to the developers. A comparative summary of the District's overall financial position, as of December 31, 2019 and 2018, is as follows:

	2019	2018
Current assets	$ 21,377,441	$ 19,601,644
Capital assets	25,687,555	25,042,405
Total assets	47,064,996	44,644,049
Total deferred outflows of resources	968,906	952,801
Current liabilities	4,243,269	4,045,111
Long-term liabilities	39,344,645	39,607,895
Total liabilities	43,587,914	43,653,006
Total deferred inflows of resources	4,735,678	4,919,345
Net position		
Net investment in capital assets	(7,711,314)	(8,435,280)
Restricted	2,278,626	2,478,257
Unrestricted	5,142,998	2,981,522
Total net position	$ (289,690)	$ (2,975,501)

The total net position of the District increased during the current fiscal year by $2,685,811. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2019	2018
Revenues		
Property taxes, penalties and interest	$ 4,465,109	$ 4,570,602
Water and sewer service	1,103,220	1,059,865
Other	1,781,683	1,367,380
Total revenues	7,350,012	6,997,847
Expenses		
Current service operations	2,429,964	2,092,064
Interest and fees	1,535,807	1,603,157
Debt issuance costs	152,540	
Depreciation and amortization	454,301	453,243
Total expenses	4,572,612	4,148,464
Change in net position before other items	2,777,400	2,849,383
Other items		
Insurance proceeds		37,765
Change in estimate of due to developer	(91,589)	79,757
Change in net position	2,685,811	2,966,905
Net position, beginning of year	(2,975,501)	(5,942,406)
Net position, end of year	$ (289,690)	$ (2,975,501)

Financial Analysis of the District's Funds

The District's combined fund balances, as of December 31, 2019, were $13,987,563, which consists of $10,483,586 in the General Fund, $2,533,538 in the Debt Service Fund, and $970,439 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of December 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	$ 14,618,068	$ 12,585,665
Total liabilities	$ 2,307,469	$ 2,130,926
Total deferred inflows	1,827,013	1,942,534
Total fund balance	10,483,586	8,515,205
Total liabilities, deferred inflows and fund balance	$ 14,618,068	$ 12,588,665

The Districts assets and liabilities include funds advanced by various landowners for the costs of design and construction of an expansion of the District's wastewater treatment plant and a new water plant.

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	$ 4,499,800	$ 3,550,037
Total expenditures	(2,528,419)	(2,169,248)
Revenues over expenditures	1,971,381	1,380,789
Other changes in fund balance		37,765
Net change in fund balance	$ 1,971,381	$ 1,418,554

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District, tap connection fees charged to builders in the District, and City of Houston sales tax rebates. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. The 2018 levy was recognized as revenues in the 2019 fiscal year, while the 2017 levy was recognized in the 2018 fiscal year (to the extent that these amounts were collected). Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year.
- Water, sewer and regional water authority fee revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with development activity within the District.

- Sales tax rebates received from the City of Houston under a Strategic Partnership Agreement are dependent on consumer spending at retail stores located within the District's boundaries and will fluctuate from year to year.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of December 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	$ 5,607,965	$ 5,884,074
Total liabilities	$ 12,464	$ 2,675
Total deferred inflows	3,061,963	3,093,988
Total fund balance	2,533,538	2,787,411
Total liabilities, deferred inflows and fund balance	$ 5,607,965	$ 5,884,074

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	$ 2,787,600	$ 3,424,216
Total expenditures	(3,207,753)	(3,277,152)
Revenues over/(under) expenditures	(420,153)	147,064
Other changes in fund balance	166,280	
Net change in fund balance	$ (253,873)	$ 147,064

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

During the current year, the District issued $3,800,000 in refunding bonds to refund $3,690,000 of its outstanding Series 2011 bonds. This refunding will save the District $426,323 in future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of December 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	$ 1,151,408	$ 1,131,905
Total liabilities	$ 180,969	$ 180,383
Total fund balance	970,439	951,522
Total liabilities and fund balance	$ 1,151,408	$ 1,131,905

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	$ 26,492	$ 23,073
Total expenditures	(7,575)	(3,294)
Revenues over expenditures	18,917	19,779
Other changes in fund balance		79,757
Net change in fund balance	$ 18,917	$ 99,536

The District has not had any significant capital asset activity in the last two years.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was $674,781 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Capital assets not being depreciated		
Land and improvements	$ 10,101,709	$ 9,177,218
Construction in progress	122,617	
	10,224,326	9,177,218
Capital assets being depreciated/amortized		
Infrastructure	18,621,515	18,615,252
Investment in regional facilities	1,323,445	1,323,445
	19,944,960	19,938,697
Less accumulated depreciation/amortization		
Infrastructure	(4,201,049)	(3,822,238)
Investment in regional facilities	(280,682)	(251,272)
	(4,481,731)	(4,073,510)
Depreciable capital assets, net	15,463,229	15,865,187
Capital assets, net	$ 25,687,555	$ 25,042,405

The District's construction in progress is for engineering fees related to various capital projects.

During the current year, the District revised its estimate of the amounts due to developers for certain capital assets and adjusted the values of those assets accordingly.

Long-Term Debt and Related Liabilities

As of December 31, 2019, the District owes $2,272,850 to developers for completed projects. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As noted, the District will owe its developers for these projects upon completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developers is trued up when the developers are reimbursed.

At December 31, 2019 and 2018, the District had total bonded debt outstanding as shown below:

Series	2019	2018
2011	$ -	$ 3,835,000
2012	3,510,000	3,600,000
2013	5,450,000	5,630,000
2014	6,755,000	6,940,000
2015 Refunding	5,975,000	6,345,000
2015A	8,725,000	9,100,000
2017	5,080,000	5,280,000
2019 Refunding	3,800,000	
	$ 39,295,000	$ 40,730,000

During the current year, the District issued $3,800,000 in unlimited tax refunding bonds. At December 31, 2019, the District had $22,915,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; $4,925,000 for parks and recreational facilities; and $60,517,874 for refunding purposes.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes, water/sewer services and City of Houston sales tax rebates and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	2019 Actual	2020 Budget
Total revenues	$ 4,499,800	$ 4,236,700
Total expenditures	(2,528,419)	(3,561,550)
Revenues over expenditures	1,971,381	675,150
Beginning fund balance	8,512,205	10,483,586
Ending fund balance	$ 10,483,586	$ 11,158,736

Property Taxes

The District's property tax base increased approximately $78,378,000 for the 2019 tax year from $570,345,191 to $648,723,008. This increase was primarily due to new construction in the District and increased property values. For the 2019 tax year, the District has levied a maintenance tax rate of $0.27 per $100 of assessed value and a debt service tax rate of $0.46 per $100 of assessed value, for a total combined tax rate of $0.73 per $100. Tax rates for the 2018 tax year were $0.31 per $100 for maintenance and operations and $0.50 per $100 for debt service for a combined total of $0.81 per $100 of assessed value.

Basic Financial Statements

Harris - Fort Bend Counties Municipal Utility District No. 3
Statement of Net Position and Governmental Funds Balance Sheet
December 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash and investments	$ 9,928,674	$ 4,756,662	$ 1,131,968	$ 15,817,304	$ -	$15,817,304
Taxes receivable	1,043,723	1,817,662		2,861,385		2,861,385
Customer service receivables	170,188			170,188		170,188
Internal balances	1,008,251	(1,008,251)				
Due from other governments	137,849			137,849		137,849
Other receivables	63,368			63,368		63,368
Prepaid items	34,582			34,582		34,582
Accrued interest receivable	55,518	41,892		97,410		97,410
Restricted cash			19,440	19,440		19,440
Restricted investments	2,169,003			2,169,003		2,169,003
Operating Reserve - Joint Water Plant	6,912			6,912		6,912
Capital assets not being depreciated					10,224,326	10,224,326
Capital assets, net					15,463,229	15,463,229
Total Assets	$14,618,068	$ 5,607,965	$ 1,151,408	$ 21,377,441	25,687,555	47,064,996
Deferred Outflows of Resources						
Deferred difference on refunding					968,906	968,906
Liabilities						
Accounts payable	$ 429,986	$ -	$ 586	$ 430,572		430,572
Other payables	610	6,085		6,695		6,695
Customer deposits	289,415			289,415		289,415
Construction advances	1,587,458			1,587,458		1,587,458
Accrued interest payable		6,379		6,379	332,750	339,129
Due to developers			180,383	180,383	2,092,467	2,272,850
Long-term debt						
Due within one year					1,590,000	1,590,000
Due after one year					37,071,795	37,071,795
Total Liabilities	2,307,469	12,464	180,969	2,500,902	41,087,012	43,587,914
Deferred Inflows of Resources						
Deferred City of Houston sales tax	52,939			52,939	(52,939)	
Deferred property taxes	1,774,074	3,061,963		4,836,037	(100,359)	4,735,678
Fund Balances/Net Position						
Fund Balances						
Nonspendable	41,494			41,494	(41,494)	
Restricted	581,545	2,533,538	970,439	4,085,522	(4,085,522)	
Unassigned	9,860,547			9,860,547	(9,860,547)	
Total Fund Balances	10,483,586	2,533,538	970,439	13,987,563	(13,987,563)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$14,618,068	$ 5,607,965	$ 1,151,408	$ 21,377,441		
Net Position						
Net investment in capital assets					(7,711,314)	(7,711,314)
Restricted for debt service					2,278,626	2,278,626
Unrestricted					5,142,998	5,142,998
Total Net Position					$ (289,690)	$ (289,690)

See notes to basic financial statements.

Harris - Fort Bend Counties Municipal Utility District No. 3
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	$ 601,827	$ -	$ -	$ 601,827	$ -	$ 601,827
Sewer service	501,393			501,393		501,393
Property taxes	1,709,263	2,687,555		4,396,818	18,847	4,415,665
Penalties and interest	23,305	16,812		40,117	9,327	49,444
Tap connection and inspection	317,247			317,247		317,247
Regional Water Authority fees	571,985			571,985		571,985
City of Houston sales tax rebates	508,510			508,510	7,946	516,456
Intergovernmental revenue	25,956			25,956		25,956
Investment earnings	240,314	83,233	26,492	350,039		350,039
Total Revenues	4,499,800	2,787,600	26,492	7,313,892	36,120	7,350,012
Expenditures/Expenses						
Current service operations						
Purchased services	64,891			64,891		64,891
Professional fees	264,742		6,746	271,488		271,488
Contracted services	633,485	57,264	829	691,578		691,578
Repairs and maintenance	339,802			339,802		339,802
Temporary lease	15,000			15,000		15,000
Utilities	88,093			88,093		88,093
Regional Water Authority fees	534,532			534,532		534,532
SPA reimbursements (Note 10)	307,858			307,858		307,858
Administrative	74,280	14,735		89,015		89,015
Other	27,707			27,707		27,707
Capital outlay	155,674			155,674	(155,674)	
Debt service						
Principal		1,545,000		1,545,000	(1,545,000)	
Interest and fees	22,355	1,438,214		1,460,569	75,238	1,535,807
Debt issuance costs		152,540		152,540		152,540
Depreciation and amortization					454,301	454,301
Total Expenditures/Expenses	2,528,419	3,207,753	7,575	5,743,747	(1,171,135)	4,572,612
Revenues Over/(Under) Expenditures/Expenses	1,971,381	(420,153)	18,917	1,570,145	1,207,255	2,777,400
Other Financing Sources/(Uses)						
Proceeds from sale of refunding bonds		3,800,000		3,800,000	(3,800,000)	
Bond premium		56,280		56,280	(56,280)	
Payment to refunded bond escrow agent		(3,690,000)		(3,690,000)	3,690,000	
Other Items						
Change in estimate of due to developers (Note 6)					(91,589)	(91,589)
Net Change in Fund Balances	1,971,381	(253,873)	18,917	1,736,425	(1,736,425)	
Change in Net Position					2,685,811	2,685,811
Fund Balance/Net Position						
Beginning of the year	8,512,205	2,787,411	951,522	12,251,138	(15,226,639)	(2,975,501)
End of the year	$10,483,586	$ 2,533,538	$ 970,439	$13,987,563	$(14,277,253)	$ (289,690)

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris - Fort Bend Counties Municipal Utility District No. 3 (the "District") conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Water Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated January 28, 1982, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 3, 1982, and the first bonds were issued on January 6, 2009.

The District's primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities.*

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or "major" funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes, water and sewer service fees, and City of Houston sales tax rebates. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, City of Houston sales tax rebates, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At December 31, 2019, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	7-45 years
Investment in regional facilities	45 years

The District's storm water detention facilities are considered improvements to land and are non-depreciable.

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable and City of Houston sales tax rebates receivable that are not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources. Additionally, collections of the 2019 property tax levy are not considered current year revenues and, consequently, are also reported as deferred property taxes.

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense. Deferred inflows of financial resources at the government-wide level consist of the 2019 property tax levy, which was levied to finance the 2020 fiscal year.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items and operating reserves paid to Cimarron Municipal Utility District for the joint water plant.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of surplus bond proceeds in the General Fund, unspent bond proceeds in the Capital Projects Fund, and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developers; the value of capital assets transferred to Harris County and the value of capital assets for which the developers have not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		$ 13,987,563
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	$ 30,169,286	
Less accumulated depreciation/amortization	(4,481,731)	
Change due to capital assets		25,687,555
The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the *Statement of Net Position* and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.		968,906
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds, the difference consists of:		
Bonds payable, net	(38,661,795)	
Interest payable on bonds	(332,750)	
Change due to long-term debt		(38,994,545)
Amounts due to the District's developers for prefunded construction of capital assets are recorded as a liability in the *Statement of Net Position.*		(2,092,467)
City of Houston sales taxes receivable that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and are deferred in the funds.		52,939
Deferred inflows in the fund statements consist of the unavailable portion of property taxes receivable and collections of the 2019 levy. In the government wide statements, however, deferred inflows consist of the entire 2019 property tax levy.		
Fund level deferred property taxes	4,836,037	
Government wide level deferred property taxes	(4,735,678)	
		100,359
Total net position - governmental activities		$ (289,690)

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds		$ 1,736,425
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for:		
Property tax revenue	$ 18,847	
Penalties and interest	9,327	
City of Houston sales tax revenue	7,946	
		36,120
Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities,* the cost of capital assets is charged to expense over the estimated useful life of the asset.		
Capital outlays	155,674	
Depreciation/amortization expense	(454,301)	
		(298,627)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net position. Other elements of debt financing are reported differently between the fund and government wide statements.		
Issuance of long term debt	(3,800,000)	
Payment to refunded bond escrow agent	3,690,000	
Bond premium	(56,280)	
Principal payments	1,545,000	
Interest expense accrual	(75,238)	
		1,303,482
Revisions in the estimate of due to developer do not provide financial resources in the funds; but may result in an adjustment to net position in *Statement of Activities*.		(91,589)
Change in net position of governmental activities		$ 2,685,811

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Restricted Cash and Investments

Restricted investments of $2,169,003 in the General Fund as of December 31, 2019 consist of surplus bond proceeds and amounts received from various landowner's in the District for the design and construction of an expansion of the wastewater treatment plant and a new water plant.

At December 31, 2019, the District held in escrow $19,440 in the Capital Projects Fund from the Series 2009 Bonds as required by the Texas Commission of Environmental Quality, for the purchase of drainage channel site costs.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Note 3 – Deposits and Investments (continued)

Investments (continued)

As of December 31, 2019, the District's investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
Certificates of deposit	General	$ 3,840,000			
	Debt Service	2,640,000			
		6,480,000	41%	N/A	N/A
Texas CLASS	General	8,119,513			
	Debt Service	185,316			
	Capital Projects	1,131,868			
		9,436,697	59%	AAAm	52 days
Total		$ 15,916,697	100%		

The District's investments in certificates of deposit are reported at cost.

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and Wells Fargo Bank as the custodian.

The District's investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Note 3 – Deposits and Investments (continued)

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at December 31, 2019, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	$ 1,009,166	Maintenance tax collections not remitted as of year end
General Fund	Debt Service Fund	2,000	Debt issuance costs paid by General Fund
Debt Service Fund	General Fund	2,915	Interest earnings due to Debt Service Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended December 31, 2019, is as follows:

	Beginning Balances	Additions/ Adjustments	Change in Estimate	Ending Balances
Capital assets not being depreciated				
Land and improvements	$ 9,177,218	$ 1,608,244	$ (683,753)	$ 10,101,709
Construction in progress		122,617		122,617
	9,177,218	1,730,861	(683,753)	10,224,326
Capital assets being depreciated/amortized				
Infrastructure	18,615,252	33,057	(26,794)	18,621,515
Investment in regional facilities	1,323,445			1,323,445
	19,938,697	33,057	(26,794)	19,944,960
Less accumulated depreciation/amortization				
Infrastructure	(3,822,238)	(424,891)	46,080	(4,201,049)
Investment in regional facilities	(251,272)	(29,410)		(280,682)
	(4,073,510)	(454,301)	46,080	(4,481,731)
Subtotal depreciable capital assets, net	15,865,187	(421,244)	19,286	15,463,229
Capital assets, net	$ 25,042,405	$ 1,309,617	$ (664,467)	$ 25,687,555

Note 5 – Capital Assets (continued)

Depreciation and amortization expense for the current year was $454,301.

During the current year, the District revised its estimate of the amounts due to developers for certain capital assets and adjusted the values of those assets accordingly.

The District has a contractual commitment for the following construction project:

	Contract Amount	Amounts Paid	Remaining Commitment
Water Plant No. 1 Hydro-Tank Addition	$ 125,000	$ -	$ 125,000

Note 6 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developers are reimbursed.

Changes in amounts due to developers during the year are as follows:

Due to developers, beginning of year	$ 1,237,484
Change in estimate of due to developers	(572,878)
Developer funded capital assets	1,608,244
Due to developers, end of year	$ 2,272,850

During the current year, the District revised its estimate of the amounts due to developers for certain capital assets. As a result, the District recorded a reduction of due to developers in the amount of $572,878, a reduction of capital assets in the amount of $664,467 on the *Statement of Net Position* and recognized a loss from the change in estimate of $91,589 on the *Statement of Activities.*

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	$ 39,295,000
Unamortized discounts	(685,967)
Unamortized premium	52,762
	$ 38,661,795
Due within one year	$ 1,590,000

The District's bonds payable at December 31, 2019, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2012	$ 3,510,000	$ 3,925,000	3.00% - 5.50%	April 1, 2015/2035	April 1, October 1	April 1, 2020
2013	5,450,000	6,270,000	3.00% - 4.75%	April 1, 2015/2036	April 1, October 1	April 1, 2022
2014	6,755,000	7,280,000	2.00% - 4.00%	April 1, 2017/2039	April 1, October 1	April 1, 2022
2015 Refunding	5,975,000	6,765,000	2.25% - 3.75%	April 1, 2016/2033	April 1, October 1	April 1, 2023
2015A	8,725,000	9,850,000	3.00% - 5.50%	April 1, 2017/2039	April 1, October 1	April 1, 2024
2017	5,080,000	5,680,000	2.00% - 3.50%	April 1, 2018/2041	April 1, October 1	April 1, 2024
2019 Refunding	3,800,000	3,800,000	2.00% - 3.00%	April 1, 2020/2034	April 1, October 1	April 1, 2025
	$ 39,295,000					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At December 31, 2019, the District had authorized but unissued bonds in the amount of $22,915,000 for water, sewer and drainage facilities; $4,925,000 for park and recreational facilities; and $60,517,874 for refunding purposes.

Note 7 – Long-Term Debt (continued)

On October 23, 2019, the District issued its $3,800,000 Series 2019 Unlimited Tax Refunding Bonds at a net effective interest rate of 2.692205% to refund $3,690,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by approximately $426,323 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $345,780. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments through October 25, 2019, the redemption date of the bonds. As of December 31, 2019, the bonds have all been redeemed and are no longer outstanding.

The change in the District's long-term debt during the year is as follows:

Bonds payable, beginning of year	$	40,730,000
Bonds issued		3,800,000
Bonds retired		(1,545,000)
Bonds refunded		(3,690,000)
Bonds payable, end of year	$	39,295,000

As of December 31, 2019, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2020	$ 1,590,000	$ 1,313,233	$ 2,903,233
2021	1,650,000	1,254,120	2,904,120
2022	1,705,000	1,196,902	2,901,902
2023	1,745,000	1,139,981	2,884,981
2024	1,785,000	1,079,807	2,864,807
2025	1,850,000	1,020,544	2,870,544
2026	1,895,000	964,468	2,859,468
2027	1,940,000	907,412	2,847,412
2028	2,005,000	847,239	2,852,239
2029	2,065,000	782,973	2,847,973
2030	2,125,000	713,816	2,838,816
2031	2,195,000	640,188	2,835,188
2032	2,260,000	563,038	2,823,038
2033	2,335,000	482,441	2,817,441
2034	2,460,000	397,550	2,857,550
2035	2,530,000	307,188	2,837,188
2036	2,080,000	220,376	2,300,376
2037	1,305,000	157,231	1,462,231
2038	1,335,000	110,369	1,445,369
2039	1,360,000	62,156	1,422,156
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	$ 39,295,000	$ 14,198,832	$ 53,493,832

Note 8 – Property Taxes

On May 6, 2000, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to $1.50 per $100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Fort Bend Central Appraisal District and Harris County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District's 2019 fiscal year was financed through the 2018 tax levy, pursuant to which the District levied property taxes of $0.81 per $100 of assessed value, of which $0.31 was allocated to maintenance and operations and $0.50 was allocated to debt service. The resulting tax levy was $4,619,796 on the adjusted taxable value of $570,345,191.

Property taxes levied each October are intended to finance the next fiscal year and are, therefore, not considered available for the District's use during the current fiscal year. Consequently, 2019 levy collections in the amount of $1,974,652 have been included with deferred property taxes and are recorded as deferred inflows of resources on the *Governmental Funds Balance Sheet*. On the government-wide *Statement of Net Position*, the full 2019 tax levy of $4,735,678 is reported as deferred inflows. These amounts will be recognized as revenue in 2020.

Property taxes receivable, at December 31, 2019, consisted of the following:

Current year taxes receivable	$	2,761,026
Prior years taxes receivable		64,583
		2,825,609
Penalty and interest receivable		35,776
Total property taxes receivable	$	2,861,385

Note 9 – West Harris County Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the "Authority"), which was created by the Texas Legislature in 2001. The Authority is a political subdivision of the State of Texas, governed by an elected nine-member Board of Directors. 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 Coastal Subsidence District, which regulates groundwater withdrawal.

Note 9 – West Harris County Regional Water Authority (continued)

The Authority charges a groundwater pumpage fee to all permitted well owners within its boundaries and a surface water fee for all surface water provided to water suppliers. As of December 31, 2019, the groundwater pumpage fee was $2.95 per 1,000 gallons of water pumped. This rate is subject to future increases. The District passes this cost on to its customers. During the current year, the District recognized $571,985 in revenues and $534,532 in expenditures for groundwater pumpage fees related to surface water conversion.

Note 10 – Strategic Partnership Agreement with the City of Houston

Effective December 20, 2007, the District and the City of Houston (the "City") entered into a Strategic Partnership Agreement (the "Agreement") under which the City annexed tracts within the District developed or to be developed for commercial purposes for the limited purpose of applying the City's planning, zoning, health and safety ordinances within the District. The Agreement was amended and restated pursuant to that certain First Amended and Restated Strategic Partnership Agreement between the District and the City, effective December 19, 2011, to add certain additional commercial tracts. The District continues to exercise all powers and functions of a municipal utility district. As consideration for the District providing services described in the Agreement, the City agreed to remit one half of all the retail sales tax collected from retailers located in the District's boundaries. The City agrees that it will not annex all or part of the District during the term of this Agreement, which is thirty years.

Receivables in the amount of $52,939 have been included in Due from City of Houston and are recorded as deferred inflows of resources on the *Governmental Funds Balance Sheet*. This amount does not meet the availability criteria required for revenue recognition at the fund level and will be recognized as revenue in 2020. During the fiscal year ended December 31, 2019, the District recorded $508,510 in revenues at the fund level in accordance with the Agreement.

Note 11 – Development Agreement

On February 23, 2009, the District entered into a Development Agreement (the "Agreement") with Ashford Park Limited Partnership, Bluecap, Ltd., and Capricorn, Ltd., being collectively referred to as Katy ABC Properties (the "Developer") for the reimbursement of certain other infrastructure improvements in the District. The District and the Developer entered into that certain Addendum to Development Agreement effective November 25, 2013.

Under the terms of the Agreement, seventy five percent (75%) of certain revenues received pursuant to the District's Strategic Partnership Agreement (the "SPA") with the City of Houston will be paid to the Developer in order to reimburse the Developer for the costs associated with certain improvements made. The revenue is generated from businesses located within a defined area that is being improved by the Developer. The District agrees to make payments to the Developer no less frequently than once each calendar quarter beginning in the calendar quarter next following the calendar quarter in which the District first collects sales tax revenue pursuant to the SPA with the City of Houston, as well as pay compounded interest of 7% annually.

Note 11 – Development Agreement (continued)

Project principal costs to be reimbursed by the District are $2,844,947. As of December 31, 2019, the District has reimbursed $1,218,683 to the Developer, which includes $307,858 reimbursed during the current year. At December 31, 2019, the remaining principal balance for the improvements is $1,626,264. During the current year, the District paid $22,355 in interest associated with this agreement. Payments from the District to the Developer will continue until: a) the sum of the payments made by the District to the Developer equals the total eligible cost of the projects as determined under the Agreement, or b) the expiration of 15 years from the effective date of January 1, 2012, whichever comes first. In the event that SPA receipts are insufficient to provide full reimbursement to the Developer by such date, the District is not obligated to use any other funds for such purposes. Since reimbursement is contingent upon the receipt of certain future revenues, the District has not recorded a liability related to this Agreement.

Note 12 – Joint Water Plant Operating Agreement

On November 17, 2010, the District entered into a Joint Water Plant Operating Agreement (the "Agreement") with Cimarron Municipal Utility District ("Cimarron"). This Agreement establishes the terms and conditions under which maintenance and operations costs for the joint water plant will be allocated between the districts. Cimarron shall hold legal title to the water plant for the benefit of both districts. Each district shall have an undivided equitable interest in the water plant based on the districts' proportionate share of equivalent single family connections ("ESFCs"). The District has a 34.96% interest with 633 ESFCs and Cimarron has a 65.04% interest with 1175 ESFCs.

Each district shall be billed monthly for its proportionate share of maintenance and operating expenditures. For the year ended December 31, 2019, the District recorded $64,891 in purchased services related to the Agreement, which includes $38,174 in unbilled purchased services incurred in previous fiscal years. During the current year, the District received an operating reserve refund of $45,191 from Cimarron. As of December 31, 2019, the District's has paid $6,912 to meet the operating reserve requirement of the joint water plant.

Note 13 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Harris - Fort Bend Counties Municipal Utility District No. 3
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	$ 611,600	$ 601,827	$ (9,773)
Sewer service	543,500	501,393	(42,107)
Property taxes	1,817,100	1,709,263	(107,837)
Penalties and interest	29,500	23,305	(6,195)
Tap connection and inspection	123,600	317,247	193,647
Regional Water Authority fees	570,400	571,985	1,585
City of Houston sales tax rebates	510,700	508,510	(2,190)
Intergovernmental revenue	36,000	25,956	(10,044)
Investment earnings	130,400	240,314	109,914
Total Revenues	4,372,800	4,499,800	127,000
Expenditures			
Current service operations			
Purchased services	33,100	64,891	(31,791)
Professional fees	289,000	264,742	24,258
Contracted services	561,500	633,485	(71,985)
Repairs and maintenance	478,300	339,802	138,498
Temporary lease	15,000	15,000	
Utilities	90,000	88,093	1,907
Regional Water Authority fees	538,100	534,532	3,568
SPA reimbursements	342,000	307,858	34,142
Administrative	85,500	74,280	11,220
Other	25,100	27,707	(2,607)
Capital outlay	594,600	155,674	438,926
Interest and fees	24,000	22,355	1,645
Total Expenditures	3,076,200	2,528,419	547,781
Revenues Over Expenditures	1,296,600	1,971,381	674,781
Fund Balance			
Beginning of the year	8,512,205	8,512,205	
End of the year	$ 9,808,805	$ 10,483,586	$ 674,781

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-1. Services and Rates
December 31, 2019

1. Services provided by the District During the Fiscal Year:

X	Retail Water		Wholesale Water	X	Solid Waste/Garbage	X	Drainage
X	Retail Wastewater		Wholesale Wastewater		Flood Control		Irrigation
	Parks/Recreation		Fire Protection		Roads	X	Security

- [ ] Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- [ ] Other (Specify): ____________________

2. Retail Service Providers
(You may omit this information if your district does not provide retail services)

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	Usage Levels
Water:	$ 18.00	5,000	N	$ 2.00	5,001 to no limit
*Wastewater:	$ 34.43	-0-	Y		
Surcharge	$ -	-0-	N	$ 3.19	-0- to no limit

District employs winter averaging for wastewater usage? ☐ Yes ☒ No

Total charges per 10,000 gallons usage: Water $ 59.90 Wastewater $ 34.43

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	601	598	x 1.0	598
1"	6	6	x 2.5	15
1.5"	6	6	x 5.0	30
2"	64	64	x 8.0	512
3"	5	5	x 15.0	75
4"	2	2	x 25.0	50
6"	6	6	x 50.0	300
8"	13	13	x 80.0	1,040
10"			x 115.0	
Total Water	703	700		2,620
Total Wastewater	636	633	x 1.0	633

* $20.00 flat monthly rate for sanitary sewer service to each residential customer within the Grand Enclave subdivision because they do not receive solid waste collection and disposal services from the District.

See accompanying auditor's report.

3. Total Water Consumption during the fiscal year (presented to the nearest thousand):

* Gallons purchased into system:	12,970,000		
Gallons pumped into system:	176,491,000	Water Accountability Ratio: (Gallons billed / Gallons pumped)	
Gallons billed to customers:	181,089,000	95.58%	

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

Does the District have Debt Service standby fees? Yes [ ] No [X]

If yes, Date of the most recent commission Order: ____________

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

If yes, Date of the most recent commission Order: ____________

5. Location of District (required for first audit year or when information changes, otherwise this information may be omitted):

Is the District located entirely within one county? Yes [ ] No [X]

County(ies) in which the District is located: Harris and Fort Bend Counties

Is the District located within a city? Entirely [ ] Partly [ ] Not at all [X]

City(ies) in which the District is located: ____________

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely [X] Partly [ ] Not at all [ ]

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes [ ] No [X]

If Yes, by whom? ____________

* Water purchased from Cimarron MUD

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-2 General Fund Expenditures
For the Year Ended December 31, 2019

Purchased services	$ 64,891
Professional fees	
Legal	152,622
Audit	12,000
Engineering	100,120
	264,742
Contracted services	
Bookkeeping	29,406
Operator	96,378
Garbage collection	99,008
Tap connection and inspection	139,621
Security	207,482
Sludge removal	56,590
Sales tax consultant	5,000
	633,485
Repairs and maintenance	339,802
Temporary lease	15,000
Utilities	88,093
Regional Water Authority fees	534,532
SPA reimbursements	307,858
Administrative	
Directors fees	23,708
Printing and office supplies	7,671
Insurance	25,861
Other	17,040
	74,280
Other	27,707
Capital outlay	155,674
Interest and fees	22,355
Total expenditures	$ 2,528,419

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-3. Investments
December 31, 2019

Fund	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
General				
Texas CLASS	Variable	N/A	$ 5,926,472	$ -
Texas CLASS	Variable	N/A	1,498,706	
Texas CLASS	Variable	N/A	694,336	
Certificate of deposit	2.75%	08/27/20	240,000	2,260
Certificate of deposit	2.75%	01/11/20	240,000	6,384
Certificate of deposit	2.50%	01/14/20	240,000	5,753
Certificate of deposit	2.00%	12/18/20	240,000	158
Certificate of deposit	2.22%	09/20/20	240,000	1,474
Certificate of deposit	2.70%	03/24/20	240,000	4,989
Certificate of deposit	2.62%	05/31/20	240,000	3,652
Certificate of deposit	1.87%	11/05/20	240,000	689
Certificate of deposit	2.00%	10/26/20	240,000	855
Certificate of deposit	2.65%	02/18/20	240,000	5,506
Certificate of deposit	2.45%	10/05/20	240,000	1,385
Certificate of deposit	2.60%	01/14/20	240,000	5,984
Certificate of deposit	2.65%	03/16/20	240,000	5,053
Certificate of deposit	2.60%	04/16/20	240,000	4,411
Certificate of deposit	2.60%	07/10/20	240,000	2,940
Certificate of deposit	2.65%	05/15/20	240,000	4,025
			11,959,513	55,518
Debt Service				
Texas CLASS	Variable	N/A	185,316	
Certificate of deposit	2.60%	03/21/20	240,000	4,872
Certificate of deposit	2.75%	03/13/20	240,000	5,298
Certificate of deposit	2.75%	03/14/20	240,000	5,280
Certificate of deposit	2.65%	03/18/20	240,000	5,088
Certificate of deposit	2.71%	03/12/20	240,000	5,221
Certificate of deposit	2.00%	09/15/20	240,000	1,407
Certificate of deposit	2.15%	09/13/20	240,000	1,541
Certificate of deposit	2.45%	09/17/20	240,000	1,675
Certificate of deposit	2.60%	03/13/20	240,000	4,992
Certificate of deposit	2.65%	03/14/20	240,000	5,088
Certificate of deposit	2.03%	09/15/20	240,000	1,430
			2,825,316	41,892
Capital projects				
Texas CLASS	Variable	N/A	431,120	
Texas CLASS	Variable	N/A	43,255	
Texas CLASS	Variable	N/A	418,363	
Texas CLASS	Variable	N/A	239,129	
			1,131,868	
Total - All Funds			$ 15,916,697	$ 97,410

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-4. Taxes Levied and Receivable
December 31, 2019

	Maintenance Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	$ 1,216,550	$ 1,969,159	$ 3,185,709
Adjustments	(165,758)	(333,371)	(499,129)
Adjusted Receivable	1,050,792	1,635,788	2,686,580
2019 Original Tax Levy	1,582,201	2,695,600	4,277,801
Adjustments	169,352	288,525	457,877
Adjusted Tax Levy	1,751,553	2,984,125	4,735,678
Total to be accounted for	2,802,345	4,619,913	7,422,258
Tax collections:			
Current year	730,351	1,244,301	1,974,652
Prior years	1,028,271	1,593,726	2,621,997
Total Collections	1,758,622	2,838,027	4,596,649
Taxes Receivable, End of Year	$ 1,043,723	$ 1,781,886	$ 2,825,609
Taxes Receivable, By Years			
2019	$ 1,021,202	$ 1,739,824	$ 2,761,026
2018	8,668	13,985	22,653
2017	2,737	7,951	10,688
2016 and prior	11,116	20,126	31,242
Taxes Receivable, End of Year	$ 1,043,723	$ 1,781,886	$ 2,825,609

	2019	2018	2017	2016
Property Valuations				
Land	$ 156,308,680	$ 141,897,858	$ 138,622,799	$ 123,197,507
Improvements	486,294,848	424,401,029	363,562,221	304,897,350
Personal Property	25,105,020	21,884,635	12,725,463	11,293,938
Exemptions	(18,985,540)	(17,838,331)	(17,227,958)	(7,538,682)
Total Property Valuations	$ 648,723,008	$ 570,345,191	$ 497,682,525	$ 431,850,113
Tax Rates per $100 Valuation				
Maintenance tax rates	$ 0.27	$ 0.31	$ 0.21	$ 0.24
Debt service tax rates	0.46	0.50	0.61	0.68
	$ 0.73	$ 0.81	$ 0.82	$ 0.92
Adjusted Tax Levy	$ 4,735,678	$ 4,619,796	$ 4,080,997	$ 3,973,021
Percentage of Taxes Collected to Taxes Levied **	41.70%	99.50%	99.73%	99.87%

* Maximum Maintenance Tax Rate Approved by Voters: $1.50 on May 6, 2000

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

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2012--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 95,000	$ 118,050	$ 213,050
2021	105,000	113,863	218,863
2022	110,000	110,638	220,638
2023	115,000	107,263	222,263
2024	120,000	103,738	223,738
2025	130,000	99,988	229,988
2026	135,000	96,013	231,013
2027	145,000	91,813	236,813
2028	155,000	87,119	242,119
2029	160,000	82,000	242,000
2030	170,000	76,638	246,638
2031	180,000	70,950	250,950
2032	190,000	64,700	254,700
2033	200,000	57,875	257,875
2034	750,000	40,781	790,781
2035	750,000	13,588	763,588
	$ 3,510,000	$ 1,335,017	$ 4,845,017

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 190,000	$ 228,856	$ 418,856
2021	200,000	221,056	421,056
2022	210,000	213,906	423,906
2023	220,000	207,181	427,181
2024	230,000	199,581	429,581
2025	245,000	190,656	435,656
2026	255,000	180,656	435,656
2027	265,000	170,256	435,256
2028	280,000	159,356	439,356
2029	295,000	147,488	442,488
2030	310,000	134,632	444,632
2031	325,000	120,732	445,732
2032	340,000	105,769	445,769
2033	360,000	89,794	449,794
2034	375,000	72,797	447,797
2035	550,000	51,063	601,063
2036	800,000	19,000	819,000
	$ 5,450,000	$ 2,512,779	$ 7,962,779

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 195,000	$ 226,963	$ 421,963
2021	205,000	220,962	425,962
2022	215,000	214,663	429,663
2023	230,000	207,987	437,987
2024	240,000	200,938	440,938
2025	255,000	193,513	448,513
2026	265,000	185,712	450,712
2027	280,000	177,537	457,537
2028	295,000	168,913	463,913
2029	315,000	159,566	474,566
2030	330,000	149,281	479,281
2031	350,000	138,231	488,231
2032	370,000	126,300	496,300
2033	390,000	113,475	503,475
2034	410,000	99,719	509,719
2035	430,000	85,018	515,018
2036	455,000	69,247	524,247
2037	480,000	51,400	531,400
2038	510,000	31,600	541,600
2039	535,000	10,700	545,700
	$ 6,755,000	$ 2,831,725	$ 9,586,725

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2015 Refunding--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 375,000	$ 187,607	$ 562,607
2021	385,000	176,207	561,207
2022	395,000	165,988	560,988
2023	400,000	156,544	556,544
2024	405,000	145,469	550,469
2025	415,000	133,169	548,169
2026	420,000	120,644	540,644
2027	425,000	107,438	532,438
2028	440,000	92,832	532,832
2029	445,000	77,344	522,344
2030	455,000	61,309	516,309
2031	465,000	44,344	509,344
2032	470,000	26,813	496,813
2033	480,000	9,000	489,000
	$ 5,975,000	$ 1,504,708	$ 7,479,708

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2015A--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 375,000	$ 305,469	$ 680,469
2021	375,000	284,844	659,844
2022	375,000	264,219	639,219
2023	375,000	243,594	618,594
2024	375,000	222,969	597,969
2025	375,000	207,031	582,031
2026	375,000	195,781	570,781
2027	375,000	184,531	559,531
2028	375,000	173,281	548,281
2029	375,000	162,031	537,031
2030	375,000	150,781	525,781
2031	375,000	139,531	514,531
2032	375,000	128,281	503,281
2033	375,000	116,797	491,797
2034	375,000	105,078	480,078
2035	600,000	89,844	689,844
2036	625,000	70,704	695,704
2037	625,000	50,781	675,781
2038	625,000	30,469	655,469
2039	625,000	10,156	635,156
	$ 8,725,000	$ 3,136,172	$ 11,861,172

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 200,000	$ 144,300	$ 344,300
2021	200,000	140,300	340,300
2022	200,000	136,300	336,300
2023	200,000	132,300	332,300
2024	200,000	128,300	328,300
2025	200,000	124,050	324,050
2026	200,000	119,425	319,425
2027	200,000	114,550	314,550
2028	200,000	109,550	309,550
2029	200,000	104,050	304,050
2030	200,000	98,050	298,050
2031	200,000	92,050	292,050
2032	200,000	86,050	286,050
2033	200,000	80,050	280,050
2034	200,000	73,925	273,925
2035	200,000	67,675	267,675
2036	200,000	61,425	261,425
2037	200,000	55,050	255,050
2038	200,000	48,300	248,300
2039	200,000	41,300	241,300
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	$ 5,080,000	$ 1,994,800	$ 7,074,800

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
Series 2019 Refunding--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 160,000	$ 101,988	$ 261,988
2021	180,000	96,888	276,888
2022	200,000	91,188	291,188
2023	205,000	85,112	290,112
2024	215,000	78,812	293,812
2025	230,000	72,137	302,137
2026	245,000	66,237	311,237
2027	250,000	61,287	311,287
2028	260,000	56,188	316,188
2029	275,000	50,494	325,494
2030	285,000	43,125	328,125
2031	300,000	34,350	334,350
2032	315,000	25,125	340,125
2033	330,000	15,450	345,450
2034	350,000	5,250	355,250
	$ 3,800,000	$ 883,631	$ 4,683,631

See accompanying auditors' report.

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
December 31, 2019

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2020	$ 1,590,000	$ 1,313,233	$ 2,903,233
2021	1,650,000	1,254,120	2,904,120
2022	1,705,000	1,196,902	2,901,902
2023	1,745,000	1,139,981	2,884,981
2024	1,785,000	1,079,807	2,864,807
2025	1,850,000	1,020,544	2,870,544
2026	1,895,000	964,468	2,859,468
2027	1,940,000	907,412	2,847,412
2028	2,005,000	847,239	2,852,239
2029	2,065,000	782,973	2,847,973
2030	2,125,000	713,816	2,838,816
2031	2,195,000	640,188	2,835,188
2032	2,260,000	563,038	2,823,038
2033	2,335,000	482,441	2,817,441
2034	2,460,000	397,550	2,857,550
2035	2,530,000	307,188	2,837,188
2036	2,080,000	220,376	2,300,376
2037	1,305,000	157,231	1,462,231
2038	1,335,000	110,369	1,445,369
2039	1,360,000	62,156	1,422,156
2040	540,000	28,350	568,350
2041	540,000	9,450	549,450
	$ 39,295,000	$ 14,198,832	$ 53,493,832

See accompanying auditors' report.

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Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-6. Change in Long-Term Bonded Debt
December 31, 2019

	Bond Issue			
	Series 2011	Series 2012	Series 2013	Series 2014
Interest rate	3.00% - 4.625%	3.00% - 5.50%	3.00% - 4.75%	2.00% - 4.00%
Dates interest payable	4/1; 10/1	4/1; 10/1	4/1; 10/1	4/1; 10/1
Maturity dates	4/1/13 - 4/1/34	4/1/15 - 4/1/35	4/1/15 - 4/1/36	4/1/17 - 4/1/39
Beginning bonds outstanding	$ 3,835,000	$ 3,600,000	$ 5,630,000	$ 6,940,000
Bonds issued				
Bonds refunded	(3,690,000)			
Bonds retired	(145,000)	(90,000)	(180,000)	(185,000)
Ending bonds outstanding	$ -	$ 3,510,000	$ 5,450,000	$ 6,755,000
Interest paid during fiscal year	$ 168,029	$ 123,138	$ 236,256	$ 231,737
Paying agent's name and city				
All series	Regions Bank, Houston, Texas			

Bond Authority:	Water, Sewer and Drainage Bonds	Parks and Recreational Facilities Bonds	Refunding Bonds
Amount Authorized by Voters	$ 67,450,000	$ 4,925,000	$ 62,000,000
Amount Issued	(44,535,000)		(1,482,126)
Remaining To Be Issued	$ 22,915,000	$ 4,925,000	$ 60,517,874

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of December 31, 2019:	$ 4,756,662
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 2,431,538

See accompanying auditors' report.

Bond Issue				
Series 2015 Refunding	Series 2015A	Series 2017	Series 2019 Refunding	Totals
2.25% - 3.75%	3.00% - 5.50%	2.00% - 3.50%	2.00% - 3.00%	
4/1; 10/1	4/1; 10/1	4/1; 10/1	4/1; 10/1	
4/1/16 - 4/1/33	4/1/17 - 4/1/39	4/1/18 - 4/1/41	4/1/20 - 4/1/34	
$ 6,345,000	$ 9,100,000	$ 5,280,000	$ -	$ 40,730,000
			3,800,000	3,800,000
				(3,690,000)
(370,000)	(375,000)	(200,000)		(1,545,000)
$ 5,975,000	$ 8,725,000	$ 5,080,000	$ 3,800,000	$ 39,295,000
$ 198,782	$ 326,094	$ 148,300	$ -	$ 1,432,336

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Water service	$ 601,827	$ 553,089	$ 614,898	$ 521,649	$ 588,123
Sewer service	501,393	506,776	527,664	438,894	517,497
Property taxes	1,709,263	1,159,504	1,009,199	1,179,622	463,511
Penalties and interest	23,305	28,019	30,572	30,390	24,839
Tap connection and inspection	317,247	137,670	149,043	332,585	408,070
Regional Water Authority fees	571,985	519,832	488,076	346,161	275,433
City of Houston sales tax rebates	508,510	484,843	357,623	241,973	181,502
Intergovernmental revenue	25,956	27,993	23,100	18,900	11,500
Miscellaneous					34
Investment earnings	240,314	132,311	55,381	23,914	17,732
Total Revenues	4,499,800	3,550,037	3,255,556	3,134,088	2,488,241
Expenditures					
Current service operations					
Purchased services	64,891	18,531	20,461	48,013	35,454
Professional fees	264,742	233,224	254,079	312,435	287,774
Contracted services	633,485	462,870	453,317	497,152	437,387
Repairs and maintenance	339,802	303,298	370,390	300,876	286,949
Temporary lease	15,000	13,700	15,000	15,000	15,000
Utilities	88,093	89,180	85,055	86,280	86,467
Regional Water Authority fees	534,532	495,879	416,694	317,196	261,197
SPA reimbursements	307,858	312,965	213,204	154,115	115,269
Administrative	74,280	69,471	66,742	64,740	63,419
Other	27,707	19,929	29,099	30,850	18,634
Capital outlay	155,674	126,645	93,940	867,862	
Interest and fees	22,355	23,556	16,048	248,202	8,676
Total Expenditures	2,528,419	2,169,248	2,034,029	2,942,721	1,616,226
Revenues Over Expenditures	$ 1,971,381	$ 1,380,789	$ 1,221,527	$ 191,367	$ 872,015

*Percentage is negligible
See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
13%	16%	19%	17%	24%
11%	14%	16%	14%	21%
38%	32%	30%	36%	19%
1%	1%	1%	1%	1%
7%	4%	5%	11%	16%
13%	15%	15%	11%	11%
11%	13%	11%	8%	7%
1%	1%	1%	1%	*
				*
5%	4%	2%	1%	1%
100%	100%	100%	100%	100%
1%	1%	1%	2%	1%
6%	7%	8%	10%	12%
14%	13%	14%	16%	18%
8%	9%	11%	10%	12%
*	*	*	*	1%
2%	3%	3%	3%	3%
12%	14%	13%	10%	10%
7%	9%	7%	5%	5%
2%	2%	2%	2%	3%
1%	1%	1%	1%	1%
3%	4%	3%	28%	
*	1%	*	8%	*
56%	64%	63%	95%	66%
44%	36%	37%	5%	34%

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	$ 2,687,555	$ 3,331,585	$ 2,873,210	$ 2,512,442	$ 2,015,446
Penalties and interest	16,812	43,378	21,008	43,162	18,688
Miscellaneous					1,278
Investment earnings	83,233	49,253	29,600	10,564	7,428
Total Revenues	2,787,600	3,424,216	2,923,818	2,566,168	2,042,840
Expenditures					
Tax collection services	71,999	69,723	68,622	68,582	50,270
Debt service					
Principal	1,545,000	1,690,000	1,245,000	715,000	520,000
Interest and fees	1,438,214	1,517,429	1,390,525	1,356,221	1,075,224
Debt issuance costs	152,540				198,256
Total Expenditures	3,207,753	3,277,152	2,704,147	2,139,803	1,843,750
Revenues Over/(Under) Expenditures	$ (420,153)	$ 147,064	$ 219,671	$ 426,365	$ 199,090
Total Active Retail Water Connections	700	693	687	675	660
Total Active Retail Wastewater Connections	633	628	634	618	605

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
96%	98%	98%	98%	99%
1%	1%	1%	2%	1%
				*
3%	1%	1%	*	*
100%	100%	100%	100%	100%
3%	2%	2%	3%	2%
55%	49%	43%	28%	25%
52%	44%	48%	53%	53%
5%				10%
115%	95%	93%	84%	90%
(15%)	5%	7%	16%	10%

Harris - Fort Bend Counties Municipal Utility District No. 3
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended December 31, 2019

Complete District Mailing Address:	1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056
District Business Telephone Number:	(713) 623-4531
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
(Set by Board Resolution -- TWC Section 49.0600)	

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse-ments	Title at Year End
Board Members				
Ron Welch	5/18 to 5/22	$ 2,100	$ 1,008	President
Cyndal Porter	5/18 to 5/22	1,800		Vice President
Derrell Witt	5/16 to 5/20	4,050	2,949	Secretary
Frank Anzalotti	6/16 to 6/20	2,850	2,020	Assistant Secretary
James Barbarino	5/18 to 5/22	3,300	2,553	Assistant Secretary
Consultants		Amounts Paid		
Schwartz, Page & Harding, L.L.P.	1982	$ 187,248		Attorney
Environmental Development Partners, LLC	2005	411,486		Operator
Municipal Accounts & Consulting, L.P.	1995	34,245		Bookkeeper
Wheeler & Associates, Inc.	2001	23,028		Tax Collector
Fort Bend Central Appraisal District	Legislation	500		Property Valuation
Harris County Appraisal District	Legislation	34,212		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	2004	2,464		Delinquent Tax Attorney
Van De Wiele & Vogler, Inc.	1982	218,245		Engineer
McGrath & Co., PLLC	2009	13,000		Auditor
Masterson Advisors, LLC	2018	39,976		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B

Specimen Municipal Bond Insurance Policy

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

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)