

OFFICIAL STATEMENT DATED AUGUST 11, 2020

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

The Bonds have been designated as “qualified tax-exempt obligations” for financial institutions. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”

NEW ISSUE - Book-Entry-Only

Moody’s Investors Service, Inc. (Underlying)..... “A2”
S&P Global Ratings (BAM Insured)..... “AA”
See “MUNICIPAL BOND INSURANCE” and “MUNICIPAL BOND RATINGS”

\$5,355,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

(A Political Subdivision of the State of Texas, located within Harris County)

UNLIMITED TAX BONDS, SERIES 2020

Interest accrues from: September 1, 2020

Due: September 1, as shown below

The \$5,355,000 Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are obligations of Harris County Municipal Utility District No. 1 (the “District”) and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable at maturity or earlier redemption by the paying agent/registrar, initially Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the “Paying Agent/Registrar”). See “THE BONDS – Method of Payment of Principal and Interest.” Interest accrues from September 1, 2020, and is payable on March 1, 2021, and on each September 1 and March 1 (each an “Interest Payment Date”) thereafter until the earlier of maturity or redemption, and will be calculated on the basis a 360-day year consisting of twelve 30-day months. The Bonds are fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

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 defined herein under “THE BONDS--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 directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See “THE BONDS - Book-Entry-Only System.”

See “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS” on inside cover page.

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.**



The Bonds, when issued, will constitute valid and 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. Investment in the Bonds is subject to special investment considerations as 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 Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about September 9, 2020.

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

\$5,355,000 Unlimited Tax Bonds, Series 2020

\$3,810,000 Serial Bonds

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 414199 (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 414199 (b)
2021	\$160,000	1.000%	0.300%	RH4	2030(c)	\$260,000	1.000%	1.250%	RS0
2022	205,000	1.000%	0.400%	RJ0	**	**	**	**	**
2023	215,000	1.000%	0.500%	RK7	2033(c)	285,000	1.250%	1.500%	RV3
2024	220,000	1.000%	0.600%	RL5	2034(c)	295,000	1.375%	1.550%	RW1
2025	225,000	1.000%	0.700%	RM3	2035(c)	305,000	1.500%	1.600%	RX9
2026(c)	235,000	1.000%	0.800%	RN1	2036(c)	315,000	1.500%	1.650%	RY7
2027(c)	240,000	1.000%	0.900%	RP6	**	**	**	**	**
2028(c)	245,000	1.000%	1.000%	RQ4	2040(c)	350,000	1.625%	1.800%	SC4
2029(c)	255,000	1.000%	1.100%	RR2					

\$1,545,000 Term Bonds

\$550,000 Term Bonds Due September 1, 2032 (c)(d), Interest Rate: 1.250% (Price \$97.808) (a), CUSIP No. 414199 RU5 (b)

\$995,000 Term Bonds Due September 1, 2039 (c)(d), Interest Rate: 1.625% (Price \$97.988) (a), CUSIP No. 414199 SB6 (b)

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- (a) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Initial Purchaser (defined herein), and may subsequently be changed. Accrued interest from September 1, 2020, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence LLC on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds. None of the District, Financial Advisor (herein defined), or Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers.
- (c) The Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or any date thereafter, at a price equal to the principal thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds – *Optional Redemption*."
- (d) Subject to mandatory redemption as provided under "THE BONDS – Redemption of the Bonds – *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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."

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 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 the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT--Updating of Official Statement."

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SALE AND DISTRIBUTION OF THE BONDS

Award and Marketing of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates on the cover page of this Official Statement, at a price of 97.009230% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 1.653931%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

Except as described in the Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices 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.

Except as described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER 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.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any 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 should 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 jurisdictions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

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 this heading "MUNICIPAL BOND INSURANCE."

BAM GreenStar Bonds

The Bonds have been designated BAM GreenStar Bonds because the use of proceeds provided by the Issuer and described elsewhere in this Official Statement aligns with one of the Green Bond Principals (GBPs) developed by the International Capital Markets Association (ICMA). The GBPs were developed by the ICMA with the goal of establishing universally accepted guidelines for the issuance of green bonds, and one of the key requirements addresses the use of proceeds. BAM has been identified by the ICMA as an observer organization that is active in the field of green and/or social or sustainability finance. The Credit Profile prepared by BAM for the Bonds will identify which of the following GBP categories applies to the Bonds:

- renewable energy
- energy efficiency
- pollution prevention and control
- environmentally sustainable management of living natural resources and land use
- terrestrial and aquatic biodiversity
- clean transportation
- climate change adaptation
- sustainable water and wastewater management
- green buildings.

Each of the GBPs correlates to one of the following UN Sustainable Development Goals which will also be included in the Credit Profile for the Bonds:

- clean water and sanitation
- affordable and clean energy
- sustainable cities and communities
- industry innovation and infrastructure
- responsible consumption and production
- climate action
- life below water
- life on land

For projects under construction, the bond obligor has agreed to furnish annual information to BAM on the status of the project under completion, which will be reflected in the BAM Credit Profile for the Bonds.

The BAM GreenStar designation is based upon information obtained from the Issuer and its representatives, which sources BAM believes to be reliable, at the time of the issuance of the Bonds. BAM does not charge a fee in connection with the designation, does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. The designation is provided on an "AS IS" basis. BAM makes no representation or warranty, express or implied, including, but not limited to, the accuracy, results, timeliness, completeness, merchantability or fitness for any particular purpose with respect to the designation. A complete description of BAM GreenStar, and its limitations and terms of use, are available on BAM's website <https://buildamerica.com/greenstar> and <https://buildamerica.com/terms-of-use> and incorporated herein by reference. The BAM GreenStar designation is determined solely by BAM; it has not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for such designation.

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/creditisights/. (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.

MUNICIPAL BOND RATINGS

Moody's Investors Service, Inc. ("Moody's") has assigned a rating of "A2" with stable outlook to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. A security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that the rating will continue for any given time or that it will not be revised downward or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any such revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. The District is not aware of any rating assigned to the Bonds other than the rating of Moody's.

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Bonds. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the ratings of S&P and Moody's.

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OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE DISTRICT

The Issuer	Harris County Municipal Utility District No. 1 (the "District"), a political subdivision of the State of Texas operating pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, was created on May 31, 1972, and is located approximately 28 miles northwest of the central business district of Houston and lies approximately four miles northeast of Tomball, Texas. The District is bisected north to south by Kuykendahl Road. The District lies entirely within the extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT."
Status of Development.....	The District currently encompasses approximately 1,277 acres, of which approximately 911 acres (approximately 2,936 lots) have been developed as the residential subdivisions of Londonderry, Wimbledon Country, Traditions, The Preserve, Oakmont Village, Klein Meadows, Princeton Place, Wimbledon Falls, Saddlebrook Ranch, Saddlebrook Village, Preserve at Northampton, and Lakes at Creekside Sections 1-5. In addition, approximately 60 acres of commercial reserves have been developed within those subdivisions and the commercial subdivision of Saddlebrook Commons which includes two apartment complexes with 264 and 380 units, six retail buildings, a storage facility, two gas stations, a coffee shop, two fast food restaurants, two banks, a credit union, an office park, a day care, a fitness center, an auto body shop, and a car wash. As of July 14, 2020, development in the District included 2,872 occupied single-family connections, 19 vacant single-family connections, 2 multi-family connections, 52 builder connections, 35 commercial connections, and 77 miscellaneous connections. See "THE DISTRICT".
Developers/Homebuilders within the District	The Lakes at Creekside, LLC has developed Lakes at Creekside, Section 1 (100 lots), Section 2 (46 lots), Section 3 (57 lots), Section 4 (56 lots), Section 5 (93 lots), and Section 6 (75 lots). Currently, Toll Brothers, Perry Homes, David Weekly Homes, and Trendmaker Homes are building homes in The Lakes at Creekside. See "THE DISTRICT". The Lakes at Creekside, LLC sold 70 acres in the District intended to be developed as future sections of Lakes at Creekside, to TOLL SOUTHWEST LLC, a Delaware limited liability company and TRENDMAKER HOMES, INC., a Texas corporation. The 70 acres are currently being developed as residential single-family housing as part of The Lakes at Creekside. See "THE DISTRICT".
Payment Record.....	The District has never defaulted in the payment of principal and interest on its bonded indebtedness.
Legal Opinion	Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel. See "LEGAL MATTERS."
Disclosure Counsel.....	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
Financial Advisor	Robert W. Baird & Co., Incorporated, Houston, Texas.

THE BONDS

The Issue	\$5,355,000 Unlimited Tax Bonds, Series 2020 (the "Bonds"), issued pursuant to an order of the District's Board of Directors (the "Bond Order"). The Bonds mature on September 1 in the years and in the principal amounts set forth on the inside cover page hereof. Interest accrues from September 1, 2020, and is payable March 1, 2021, and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds maturing on September 1, 2021, through September 1, 2030, September 1, 2033, through September 1, 2036, and September 1, 2040, inclusive, are serial bonds. The Bonds maturing on September 1 in the years 2032 and 2039 are term bonds (the "Term Bonds").
Redemption of the Bonds.....	Bonds maturing on or after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at the principal amount thereof plus accrued interest from the most recent interest payment date to the date

fixed for redemption. See “THE BONDS – Redemption of the Bonds – *Optional Redemption*.” The Term Bonds are subject to mandatory redemption as set out herein under “THE BONDS – Redemption of the Bonds – *Mandatory Redemption*.”

Use of Proceeds	Proceeds of the sale of the Bonds will be used by the District (i) to finance (a) Lakes at Creekside Section 5 - Stormwater Pollution Prevention Plan (“SWPPP”); (b) water, wastewater and drainage facilities to serve Lakes at Creekside Section 5; (c) SWPPP for Lakes at Creekside Future Western Sections; (d) clearing and grubbing for Lakes at Creekside Future Western Sections; (e) water, wastewater and drainage facilities to serve Lakes at Creekside Section 6; (f) Lakes at Creekside Section 6 - SWPPP; (g) lift station No. 6 and land acquisition for the lift station No. 6; (h) detention pond K; and (i) engineering for items (a) through (h); and (ii) to pay for administrative and issuance costs, legal fees, financial advisor fees, a fee to the TCEQ, a fee to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds. See “THE BONDS—Use and Distribution of Bond Proceeds.”
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”
Authority of Issuance.....	At an election held on November 5, 2013, the District voters authorized the issuance of \$36,000,000 in unlimited tax bonds, and on November 3, 2015, the District voters authorized the issuance of an additional \$36,000,000 in unlimited tax bonds. After the issuance of the Bonds, the District will have \$46,875,000 of unlimited tax bonds authorized but unissued. See “THE BONDS—Authority for Issuance” and “SELECTED FINANCIAL INFORMATION – Unlimited Tax Bonds Authorized but Unissued.”
Source of Payment	The Bonds are payable from an annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. See “TAXING PROCEDURES”. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS – Source of Payment.”
Qualified Tax-Exempt Obligations	The Bonds have been designated “qualified tax-exempt obligations” for financial institutions. See “LEGAL MATTERS – Qualified Tax-Exempt Obligations.”
Municipal Bond Insurance.....	Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.”
Municipal Bond Ratings.....	Moody’s Investors Service, Inc. (Underlying): “A2.” S&P Global Ratings (BAM Insured): “AA.” See “MUNICIPAL BOND RATINGS.”
Hurricane Harvey	The Houston area, including Harris County, sustained widespread flooding as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District is located approximately 75 miles from the Texas Gulf Coast. Accordingly, like other coastal areas, land located in the District is susceptible to hurricanes, tropical storms, and other tropical disturbances.

According to the District’s Operator, the District’s System did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the District’s Operator and Engineer, no structures within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events. See “INVESTMENT CONSIDERATIONS – Hurricane Harvey.”

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

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

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

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

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

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**SUMMARY OF SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2019 Certified Assessed Valuation	\$ 798,750,616	(a)
2020 Estimated Assessed Valuation	\$ 845,146,164	(b)
Direct Debt:		
The Outstanding Bonds (as of June 1, 2020)	\$ 46,415,000	
The Bonds	<u>5,355,000</u>	
Total	\$ 51,770,000	
Estimated Overlapping Debt	<u>\$ 46,043,090</u>	(c)
Total Direct and Estimated Overlapping Debt	<u>\$ 97,813,090</u>	
Direct Debt Ratios:		
As a percentage of the 2019 Certified Assessed Valuation	6.48	%
As a percentage of the 2020 Estimated Assessed Valuation	6.13	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2019 Certified Assessed Valuation	12.25	%
As a percentage of the 2020 Estimated Assessed Valuation	11.57	%
Debt Service Fund (as of May 12, 2020)	\$ 6,850,745	(d)
Operating Fund (as of May 12, 2020)	\$ 7,169,584	
Capital Projects Fund (as of May 12, 2020)	\$ 925,042	
2019 Tax Rate:		
Debt Service	\$0.530	
Maintenance & Operation	<u>\$0.215</u>	
Total	\$0.745	
Average Annual Debt Service Requirement (2020-2040)	\$ 3,010,820	(e)
Maximum Annual Debt Service Requirement (2025)	\$ 5,026,912	(e)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2020-2040) at 95% Tax Collections		
Based on the 2019 Certified Assessed Valuation	\$0.40	
Based on the 2020 Estimated Assessed Valuation	\$0.38	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2025) at 95% Tax Collections		
Based on the 2019 Certified Assessed Valuation	\$0.67	
Based on the 2020 Estimated Assessed Valuation	\$0.63	

(a) As of January 1, 2019. As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

(b) Provided by the Appraisal District, such value represents the Appraisal District's estimation of certified valuation of all taxable property within the District as of January 1, 2020. Such value includes \$69,101,228 amount of assessed valuation under review by the Appraisal Review Board ("ARB"); which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the ARB, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020, by the end of September 2020. See "TAX DATA" and "TAXING PROCEDURES".

(c) See "SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt."

(d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. At the time of closing, accrued interest from September 1, 2020, to the date of delivery will be deposited to this fund.

(e) Debt service on the Bonds and the Outstanding Bonds. See "DEBT SERVICE REQUIREMENTS."

\$5,355,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

UNLIMITED TAX BONDS
SERIES 2020

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 1 (the "District") of its \$5,355,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to an order ("Bond Order") adopted by the Board of Directors (the "Board") of the District on the date of sale of the Bonds, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, particularly Texas Water Code, Chapters 49 and 54, as amended, an order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") and various elections held within the District and passed by a majority of the participating voters.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

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 September 1, 2020, with interest payable on March 1, 2021, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from September 1, 2020, and thereafter, from the most recent Interest Payment Date to which interest has been paid. The Bonds mature on September 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the inside 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 system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "THE BONDS--Book-Entry-Only System." Interest calculations are based upon a 360-day year comprised of twelve 30-day months.

Redemption of the Bonds

Optional Redemption

Bonds maturing on September 1, 2026, and thereafter, are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

Mandatory Redemption

The Bonds maturing on September 1 in the years 2032 and 2039 (the "Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years ("Mandatory Redemption Dates") and in the amounts set forth below at a redemption price of par plus accrued interest to the date of redemption.

\$550,000 Term Bonds Maturing on September 1, 2032	
Mandatory Redemption Date	Principal Amount
September 1, 2031	\$270,000
September 1, 2032 (Maturity)	\$280,000

\$995,000 Term Bonds Maturing on September 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2037	\$325,000
September 1, 2038	\$330,000
September 1, 2039 (Maturity)	\$340,000

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

The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or any date thereafter, at a price 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 "THE BONDS--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.

Source of Payment

The Bonds are payable from the proceeds of a continuing, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient in amount to pay principal of and interest on the Bonds when due, full allowance being made for anticipated delinquencies and costs of collection, and undertakes to collect such tax. The net proceeds from taxes levied for debt service purposes will then be deposited in the District's Debt Service Fund and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue.

Authority for Issuance

At an election held on November 5, 2013, the District voters authorized the issuance of \$36,000,000 in unlimited tax bonds; and on November 3, 2015, the District voters authorized the issuance of an additional \$36,000,000 in unlimited tax bonds. After the issuance of the Bonds, the District will have \$46,875,000 of unlimited tax bonds authorized but unissued.

Issuance of Additional Debt

The District may issue additional bonds to provide and maintain improvements and facilities for which the District was created, with approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. Following the issuance of the Bonds, \$46,875,000 principal amount of unlimited tax bonds authorized by the District's voters will remain unissued. Additional unlimited tax bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes.

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

Issues of additional unlimited tax bonds or unlimited tax and revenue bonds will be required to provide water, sanitary sewer and drainage facilities and services to the remaining undeveloped land within the District's boundaries. See "INVESTMENT CONSIDERATIONS—Future Development."

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for fire-fighting activities, the following actions would be required: (i) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (ii) amendment of the existing City of Houston, Texas (the "City") ordinance specifying the purposes for which the District may issue bonds; (iii) approval of the master plan and bonds by the TCEQ; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City concerning modifications of its ordinance.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park projects and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

The District expressly reserves the right to issue in one or more installments the following: (1) bonds payable solely from net revenues of the District's water and wastewater system (the "System") for the purpose of completing, repairing, improving, extending, enlarging or replacing the System, and such bonds may be payable from and equally secured by a lien on and pledge of said net revenues on a parity with the pledge on any previously issued bonds secured by net revenues to the extent net revenues are used to pay the principal of and interest on such bonds; (2) inferior lien bonds and to pledge the net revenues of the System to the payment thereof, such pledge to be subordinate in all respects to the lien of previously issued revenue bonds and any previously issued or subsequently issued bonds which are on a parity with the Bonds; (3) special project bonds for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities, such special project bonds to be payable from and secured by the proceeds of such contract or contracts; and (4) any other evidence of indebtedness authorized by law.

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

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 or 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 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 those currently permitted under Texas law.

No Arbitrage

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

Annexation and Consolidation

The District lies entirely within the extraterritorial jurisdiction of the City. Generally, the District may be annexed by the City without the District’s consent (except as described below under “Strategic Partnership Agreement”) and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “Strategic Partnership Agreement,” below, for a description of the terms of the Strategic Partnership Agreement between the City and the District.

If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

The District has the right to consolidate with other districts. Although the District has previously consolidated with another district, the District has no current plans to exercise its right of consolidation. See “THE DISTRICT – Consolidation with Harris County Municipal Utility District No. 35.” No representation is made concerning the ability of the consolidated district to make debt service payments on the Bonds and other outstanding obligations of the consolidated district should consolidation occur.

Strategic Partnership Agreement

Effective December 13, 2010, the District and the City entered into a 30-year Strategic Partnership Agreement (the “Agreement”). Under the terms of the Agreement, the City annexed a portion of the District (the “Partial District”) for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of the Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District may use sales tax revenue generated under the Agreement for lawfully authorized purposes. None of the sales tax revenue is pledged toward the payment of principal and interest on the Bonds.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted from Section 49.186 of the Texas Water Code, as amended, 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, as amended) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

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

Amendments

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

Registered Owners’ Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the Bonds (the “Registered Owners”) have the right to seek 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

Payment Record

The District has never defaulted in the payment of principal and interest on its bonded indebtedness.

Funds

The Bond Order confirms the District’s Construction Fund and the District’s Debt Service Fund (the “Bond Fund”). Accrued interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the 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 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 (hereinafter defined), to defray the expenses of

assessing and collecting taxes levied for payment of interest on and principal of the 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.

Method of Payment of Principal and Interest

The Board has appointed Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds (the "Paying Agent/Registrar"). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "THE BONDS--Book-Entry-Only System."

Registration

Section 149(a) of the Code, 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 "THE BONDS--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.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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 Participant, (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.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC

is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, District or Paying Agent/Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant

acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Use and Distribution of Bond Proceeds

Proceeds of the sale of the Bonds will be used by the District (i) to finance (a) Lakes at Creekside Section 5 - Stormwater Pollution Prevention Plan ("SWPPP"); (b) water, wastewater and drainage facilities to serve Lakes at Creekside Section 5; (c) SWPPP for Lakes at Creekside Future Western Sections; (d) clearing and grubbing for Lakes at Creekside Future Western Sections; (e) water, wastewater and drainage facilities to serve Lakes at Creekside Section 6; (f) Lakes at Creekside Section 6 - SWPPP; (g) lift station No. 6 and land acquisition for the lift station No. 6; (h) detention pond K; and (i) engineering for items (a) through (h); and (ii) to pay for administrative and issuance costs, legal fees, financial advisor fees, a fee to the TCEQ, a fee to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds.

	<u>District's Share</u>
CONSTRUCTION COSTS	
Developer Contribution Items	
1. Lakes at Creekside Section 5 - W, WW & D	\$ 1,291,495
2. Lakes at Creekside Section 5 - SWPPP	41,964
3. Lakes at Creekside Future Western Sections Clearing and Grubbing	310,564
4. Lakes at Creekside Future Western Sections - SWPPP	1,800
5. Lakes at Creekside Section 6 - W, WW & D	709,782
6. Lakes at Creekside Section 6 - SWPPP	16,110
7. Lift Station No. 6	518,307
8. Detention Pond K	858,616
9. Land Acquisition for Lift Station No. 6	26,851
10. Contingencies	42,931
11. Engineering	<u>\$ 839,200</u>
Total Developer Contribution Items	\$ 4,684,935
District Items	
1. None	<u>\$ -</u>
TOTAL CONSTRUCTION COSTS	\$ 4,684,935
NONCONSTRUCTION COSTS	
A. Legal Fees	\$ 133,875
B. Fiscal Agent Fees	100,325
C. Developer Interest	171,593
D. Bond Discount	160,156
E. Bond Issuance Expenses	39,879
F. Bond Application Report	45,000
G. Attorney General Fee	5,355
H. TCEQ Bond Issuance Fee	13,388
I. Contingency (a)	<u>\$ 494</u>
TOTAL NONCONSTRUCTION COSTS	\$ 670,065
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 5,355,000</u>

(a) Represents the sum of the difference between estimated and actual amounts of the discount on the Bonds.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

General

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code. The District was created by an Order of the Texas Water Rights Commission, a predecessor to the TCEQ on May 31, 1972. The District is vested with all of the rights, privileges, authority and functions conferred by the general laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered, among other things, to purchase, construct, operate, acquire, own, and maintain water and wastewater facilities and improvements, to provide for the control and diversion of storm water, and to provide parks and recreational facilities and equipment.

The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the TCEQ and the District's voters. The District is also empowered to provide for solid waste disposal services. The District is subject to the continuing supervision of the TCEQ.

Consolidation with Harris County Municipal Utility District No. 35

At an election held on August 13, 1994 and effective November 1, 1994, voters in the District (as it existed prior to consolidation) and the voters in Harris County Municipal Utility District No. 35 ("MUD No. 35") authorized by separate elections consolidation of the District with MUD No. 35. The District acquired all assets and liabilities of MUD No. 35 and the geographic boundary of the District includes all the land previously included in the District and MUD No. 35.

Description

The District originally contained 296.36 acres and presently encompasses approximately 1,277 acres due to an annexation on January 24, 1979 of 100.65 acres, the consolidation with MUD No. 35 of 271.25 acres on November 1, 1994, an annexation on August 12, 2003 of 68.09 acres, an annexation on March 8, 2005 of 102.69 acres, an annexation on December 13, 2005 of 61.53 acres, an annexation on January 9, 2007 of 100.55 acres, an annexation on January 13, 2015 of 93.60 acres, an annexation on October 11, 2016 of 181.75 acres, and an annexation of 1.0 acre on April 9, 2019. The District is located approximately 28 miles northwest of the central business district of the City of Houston, Texas, and approximately four miles northeast of Tomball, Texas. Access to the District from the downtown Houston business area is provided via Interstate Highway 45 and Kuykendahl Road. The District is located entirely within Harris County and the exclusive extraterritorial jurisdiction of the City of Houston and lies wholly within the Klein Independent School District.

Management of the District

The District is governed by the Board consisting of five directors, which has control over and management and supervision of all affairs of the District. All directors serve four-year staggered terms and all elections are held the first Saturday in May in even-numbered years. All of the directors are qualified to serve.

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Doug Caldwell, Jr.	President	2022
Craig C. Young	Vice President	2024
Ralph Meade	Director	2024
Janet Stallings	Director	2022
James E. Roberson	Secretary	2022

The District employs the following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – Land and improvements in the District are appraised for taxation by the Harris County Appraisal District (the "Appraisal District"). The District has engaged the Harris County Tax Office as the tax assessor/collector (the "Tax Assessor/Collector").

Utility System Operator – The District's operator is Hays Utility South Corporation (the "Operator").

Bookkeeper – Municipal Accounts & Consulting, L.P. serves as bookkeeper for the District.

Auditor – The District engaged Mark C. Eyring, PLLC to audit its financial statements for the fiscal year ended September 30, 2019.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Van De Wiele & Vogler, Inc. (the "Engineer").

Bond Counsel and General Counsel – Smith, Murdaugh, Little & Bonham, 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, Smith, Murdaugh, Little & Bonham, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel – McCall, Parkhurst & Horton L.L.P., Houston, Texas (“Disclosure Counsel”), serves as disclosure counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor – Robert W. Baird & Co., Inc. serves as the District’s financial advisor (the “Financial Advisor”). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. See “PREPARATION OF OFFICIAL STATEMENT - Consultants.”

DEVELOPMENT OF THE DISTRICT

Status of Development

The District currently encompasses approximately 1,277 acres, of which approximately 911 acres (approximately 2,936 lots) have been developed as the residential subdivisions of Londonderry, Wimbledon Country, Traditions, The Preserve, Oakmont Village, Klein Meadows, Princeton Place, Wimbledon Falls, Saddlebrook Ranch, Saddlebrook Village, Preserve at Northampton, and Lakes at Creekside Sections 1-5. In addition, approximately 60 acres of commercial reserves have been developed within those subdivisions and the commercial subdivision of Saddlebrook Commons which includes two apartment complexes with 264 and 380 units, six retail buildings, a storage facility, two gas stations, a coffee shop, two fast food restaurants, two banks, a credit union, an office park, a day care, a fitness center, an auto body shop, and a car wash. As of July 14, 2020, development in the District included 2,872 occupied single-family connections, 19 vacant single-family connections, 2 multi-family connections, 52 builder connections, 35 commercial connections, and 77 miscellaneous connections.

Developers and Homebuilders

The Lakes at Creekside, LLC has developed Lakes at Creekside, Section 1 (100 lots), Section 2 (46 lots), Section 3 (57 lots), Section 4 (56 lots), Section 5 (93 lots), and Section 6 (75 lots). Currently, Toll Brothers, Perry Homes, David Weekly Homes, and Trendmaker Homes are building homes in The Lakes at Creekside. The Lakes at Creekside, LLC sold 70 acres in the District intended to be developed as future sections of Lakes at Creekside, to TOLL SOUTHWEST LLC, a Delaware limited liability company and TRENDMAKER HOMES, INC., a Texas corporation. The 70 acres are currently being developed as residential single-family housing as part of The Lakes at Creekside. Homes within Lakes at Creekside are priced from the \$370,000s to over \$600,000.

Future Development

The amount of acreage to be developed from these Bonds is 68. The District contains approximately 69 undevelopable acres and approximately 169 developable acres. Of the 169 developable acres, 70 acres are owned by TOLL SOUTHWEST LLC, a Delaware limited liability company and TRENDMAKER HOMES, INC., a Texas corporation, which it intends to develop as future sections of Lakes at Creekside. The District expects to finance the development of the 70 acres located in the District from additional bond proceeds as development warrants. The District makes no representation as to when or if such acreage will be developed or if any future development will be consistent with the type of development the District presently contains.

THE SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the “System”) have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston, and Harris County. According to the District’s Engineer, the design of all such completed facilities has been approved by all required governmental agencies and inspected by the TCEQ.

Operation of the District’s waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Water Supply

The District owns three water plants. An earlier plant, Water Plant No. 1, has been demolished. Water Plant No. 2 consists of a 1,239 gallon-per minute ("gpm") well, 40,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. Water Plant No. 3 consists of a 1,074 gallon-per minute ("gpm") well, 30,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. Water Plant No. 4 consists of a 516 gallon-per minute ("gpm") well, 30,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. According to Van De Wiele & Vogler, Inc., the District's engineer (the "Engineer"), water plants 2, 3, and 4 are capable of serving 4,715 equivalent single-family connections ("esfc") in the District.

Wastewater Treatment

The District owns and operates a 950,000 gallon-per day ("gpd") wastewater treatment facility and a 110,000 gallon-per day ("gpd") wastewater treatment facility. According to the Engineer, the two facilities are adequate to serve 3,533 esfc.

100-Year Flood Plain

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

According to the FEMA Map Panel No. 48201 C0235M dated October 16, 2013, approximately nine acres within the District are located in the 100-year flood plain and are not considered to be developable.

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the Service Area 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 Service Area. 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.

Harris/Galveston Subsidence District

The District is located within Area 3 of the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. The District's ability to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a Regulatory Plan, which was subsequently amended on May 8, 2013 (the "Regulatory Plan"), to reduce groundwater withdrawal through conversion to surface water consumption by the areas within the Subsidence District's boundaries. Under the Regulatory Plan, areas within Area 3 of the Subsidence District's boundaries must have been converted to 30% surface water currently, 60% surface water by 2025 and 80% surface water by 2035. Water permittees, including the District, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The District is also located within the boundaries of the North Harris County Regional Water Authority (the "Water Authority"). The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District's Area 3 in accordance with the Subsidence District's Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the Water Authority has adopted a groundwater reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks, and pumping stations to transport and distribute surface water to the areas within the Water Authority's boundaries (the "Surface Water Facilities"). The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority is currently assessing a groundwater pumpage fee in the amount of \$4.25 per 1,000 gallons of water, which applies to certain water well permittees in its boundaries, including the District. The Water Authority has issued ten series of Senior Lien Revenue Bonds to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee. The groundwater pumpage fee may increase in the future.

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of Phase I of the Surface Water Facilities is being paid through the pumpage fee. For future

phases of the Surface Water Facilities, current rules of the Water Authority allow the District to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by the District through the issuance of bonds of which \$1,535,970,000 principal amount remains outstanding. The Water Authority may issue more bonds in the future.

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

No representation is made that the Water Authority will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, the District would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

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General Fund Operating Statement

The following is a summary of the District's Operating Fund. The figures for the fiscal years ending September 30 in the years 2015 through 2019, were obtained from the District's annual financial report, reference to which is hereby made. See "APPENDIX A." The figures for the period ended May 31, 2020, are unaudited and have been obtained from the reports of the District's bookkeeper. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended					
	<u>2020 (b)</u>	<u>09/30/19</u>	<u>09/30/18</u>	<u>09/30/17</u>	<u>09/30/16</u>	<u>09/30/15</u>
REVENUES						
Property taxes	\$ 1,689,732	\$ 1,074,730	\$ 1,329,371	\$ 1,553,447	\$ 1,304,721	\$ 860,638
Water Service	539,920	858,006	896,425	874,120	853,504	807,171
Sewer Service	676,598	990,229	965,369	943,453	932,179	906,932
Surface Water Fees	781,623	1,272,093	1,206,590	990,954	791,764	612,178
Penalty	28,578	53,887	58,901	48,930	51,134	20,610
Tap Connection and Inspection Fees	125,020	167,887	127,561	402,324	94,525	231,496
Sales and Use Taxes	56,117	84,715	82,621	76,672	55,954	56,513
Interest on Deposits and Investments	116,017	134,955	74,106	35,214	14,222	3,181
Other Revenues	<u>14,084</u>	<u>49,523</u>	<u>30,036</u>	<u>47,500</u>	<u>24,733</u>	<u>42,960</u>
TOTAL REVENUES	\$ 4,027,690	\$ 4,685,425	\$ 4,770,980	\$ 4,972,614	\$ 4,122,736	\$ 3,541,679
EXPENDITURES						
Professional fees	\$ 166,707	\$ 198,628	\$ 199,253	\$ 200,979	\$ 198,665	\$ 153,285
Contracted services	119,607	255,425	236,291	231,370	230,121	203,775
Utilities	131,669	212,621	219,837	209,843	219,909	207,760
Surface Water Fees	934,317	1,324,300	1,182,064	1,050,052	818,627	624,962
Repairs and Maintenance	342,591	564,123	815,048	438,037	395,784	285,130
Other Operating Expenditures	205,330	207,899	208,349	184,833	184,462	169,897
Security Service	188,956	276,660	278,217	270,373	203,269	208,072
Garbage Disposal	356,871	514,591	497,947	497,884	514,031	482,287
Administrative Expenditures	104,067	169,117	162,968	175,240	151,139	160,797
Capital Outlay	<u>308,553</u>	<u>461,925</u>	<u>2,096,538(a)</u>	<u>328,035</u>	<u>108,278</u>	<u>120,853</u>
TOTAL EXPENDITURES	\$ 2,550,115	\$ 4,185,289	\$ 5,896,512	\$ 3,586,646	\$ 3,024,285	\$ 2,616,818
Excess Revenues (Expenditures)	\$ 1,477,574	\$ 500,136	\$ (1,125,532)	\$ 1,385,968	\$ 1,098,451	\$ 924,861
Other Sources (Uses)	\$ -	\$ -	\$ 100,813	\$ 31,915	\$ 60,830	\$ -
Balance, Beg of Year	\$ 5,914,957	\$ 5,414,821	\$ 6,439,540	\$ 5,021,657	\$ 3,862,376	\$ 2,937,515
Balance, End of Year	\$ <u>7,392,531</u>	\$ <u>5,914,957</u>	\$ <u>5,414,821</u>	\$ <u>6,439,540</u>	\$ <u>5,021,657</u>	\$ <u>3,862,376</u>

(a) Approximately \$1,720,000 is attributable to a developer reimbursement that was paid to The Lakes of Creekside, LLC using general funds.

(b) Unaudited for the time period ending May 31, 2020.

SELECTED FINANCIAL INFORMATION

2019 Certified Assessed Valuation	\$ 798,750,616	(a)
2020 Estimated Assessed Valuation	\$ 845,146,164	(b)
Direct Debt:		
The Outstanding Bonds (as of June 1, 2020)	\$ 46,415,000	
The Bonds	<u>5,355,000</u>	
Total.....	\$ 51,770,000	
Estimated Overlapping Debt	\$ <u>46,043,090</u>	(c)
Total Direct and Estimated Overlapping Debt.....	\$ <u>97,813,090</u>	

Area of District: 1,277 acres

Estimated 2019 Population: 11,211 (d)

-
- (a) As of January 1, 2019. As certified by the Appraisal District. See "TAXING PROCEDURES."
- (b) Provided by Appraisal District, such value represents the Appraisal District's estimation of certified valuation of all taxable property within the District as of January 1, 2020. Such value includes \$69,101,228 amount of assessed valuation under review by the Appraisal Review Board ("ARB"); which represents 80% of such value under review. No taxes will be levied on this certified estimate of taxable value, which is subject to review and downward adjustment prior to certification. After the value is certified by the ARB, taxes will be levied on the certified value. It is anticipated that the Appraisal District will provide the certified taxable assessed valuation as of January 1, 2020, by the end of September 2020. See "TAX DATA" and "TAXING PROCEDURES".
- (c) See "SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt."
- (d) Based on 3.5 residents per single family occupied connection and 2.5 residents per multi-family unit. There were 2,872 occupied single-family connections and 2 multi-family units as of July 14, 2020.

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TAX DATA

Outstanding Bonds

The District has previously issued twenty-one series of bonds, of which the following series have bonds outstanding: \$8,300,000 Unlimited Tax Bonds, Series 2009; \$4,345,000 Unlimited Tax Refunding Bonds, Series 2010; \$5,700,000 Unlimited Tax Bonds, Series 2011; \$4,110,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2013; \$5,370,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2014; \$7,025,000 Unlimited Tax Refunding Bonds, Series 2014; \$4,010,000 Unlimited Tax Refunding Bonds, Series 2016; \$9,575,000 Unlimited Tax & Revenue Bonds, Series 2016; \$4,870,000 Unlimited Tax Refunding Bonds, Series 2017; \$9,690,000 Unlimited Tax Bonds, Series 2017; and \$2,340,000 Unlimited Tax Bonds, Series 2019. As of June 1, 2020, \$46,415,000 principal amount remains outstanding (the "Outstanding Bonds").

<u>Date of Issue</u>	<u>Series</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Amount Outstanding After Issuance of the Bonds</u>
A. New Money Issues				
05/01/09	2009	Water & Sewer	\$ 8,300,000	\$ 825,000
10/01/11	2011	Water & Sewer	5,700,000	4,120,000
09/01/13	2013	Water & Sewer	4,110,000	3,265,000
09/01/14	2014	Water & Sewer	5,370,000	4,630,000
06/01/16	2016	Water & Sewer	9,575,000	8,545,000
12/01/17	2017	Water & Sewer	9,690,000	8,885,000
10/01/19	2019	Water & Sewer	2,340,000	2,340,000
08/01/20	2020 (a)	Water & Sewer	<u>5,355,000</u>	<u>5,355,000</u>
			<u>\$50,440,000</u>	<u>\$37,965,000</u>
B. Refunding				
04/01/10	2010	Refunding	\$ 4,345,000	\$ 1,875,000
10/01/14	2014	Refunding	7,025,000	3,975,000
02/01/16	2016	Refunding	4,010,000	3,175,000
08/01/17	2017	Refunding	<u>4,870,000</u>	<u>4,780,000</u>
			<u>\$20,250,000</u>	<u>\$13,805,000</u>
TOTAL			<u>\$65,335,000</u>	<u>\$51,770,000</u>

(a) The Bonds.

Cash and Investment Balances

Operating Fund (as of May 12, 2020)	Cash and Temporary Investments	\$ 7,169,584
Capital Projects Fund (as of May 12, 2020)	Cash and Temporary Investments	\$ 925,042
Debt Service Fund (as of May 12, 2020)	Cash and Temporary Investments	\$ 6,850,745 (a)

(a) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

Authority for Issuance

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
November 5, 2013	Water, Sewer, Drainage & Refunding	\$ 36,000,000	\$ 25,125,000 (a)	\$ 10,875,000
November 3, 2015	Water, Sewer, Drainage & Refunding	\$ 36,000,000	\$ -	\$ 36,000,000

(a) Includes the Bonds.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

Taxing Jurisdiction	Debt as of May 31, 2020	Percent	Overlapping Amount
Harris County	\$ 1,885,182,125	0.17%	\$ 3,204,810
Harris County Department of Education	6,320,000	0.16%	10,112
Harris County Hospital District	86,050,000	0.17%	146,285
Harris County Flood Control	83,075,000	0.17%	141,228
Port of Houston Authority	572,569,397	0.17%	973,368
Lone Star College System	570,885,000	0.38%	2,169,363
Klein Independent School District	1,125,655,000	3.50%	<u>39,397,925</u>
Total Estimated Overlapping Debt			\$ 46,043,090
The District			<u>\$ 51,770,000</u> (a)
Total Direct & Estimated Overlapping			<u>\$ 97,813,090</u>
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Assessed Valuation			12.25 %
Ratio of Estimated Direct and Overlapping Debt per Capita (b)			\$ 8,387

(a) Includes the Bonds.

(b) Based on 3.5 residents per single family occupied connection and 2.5 residents per multi-family unit. There were 2,872 occupied single-family connections and 644 multi-family units as of July 14, 2020.

Estimated Overlapping Taxes

<u>Taxing Jurisdictions</u>	<u>2019 Tax Rate Per \$100 of A.V.</u>
The District	\$ 0.745000
Harris County and Related Entities (a)	0.616700
Klein Independent School District	1.360000
Lone Star College System District	0.107800
Harris County Emergency Services District No. 7	0.099390
Harris County Emergency Services District No. 11	<u>0.034707</u>
Total	<u>\$ 3.003597</u>

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

Classification of Assessed Valuation

Type of Property	2019 Assessed Valuation	2018 Assessed Valuation	2017 Assessed Valuation
Real: Single-Family Residential	\$641,584,902	\$591,416,556	\$570,147,660
Real: Multi-Family Residential	65,809,123	66,493,391	63,456,689
Real: Commercial	61,367,752	56,449,750	52,598,311
Vacant Lots/Land	10,427,540	11,622,307	8,625,405
Personal Property	<u>19,561,299</u>	<u>19,615,761</u>	<u>22,790,667</u>
Total	\$798,750,616	\$745,597,765	\$717,618,732

Tax Collections

The following statement of tax collections set forth in condensed form is the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation (a)	Tax Rate	Adjusted Tax Levy (a)	Current Collections (b)		Total Collections (c)		Fiscal Year End
				Amount	%	Amount	%	
2014	482,414,568	0.970	4,672,565	4,628,038	99.05%	4,653,143	99.58%	9/30/2015
2015	595,006,907	0.920	5,474,979	5,434,809	99.27%	5,470,170	99.91%	9/30/2016
2016	677,026,107	0.800	5,410,490	5,378,679	99.41%	5,419,470	100.17%	9/30/2017
2017	718,246,246	0.785	5,637,030	5,610,434	99.53%	5,651,213	100.25%	9/30/2018
2018	745,163,855	0.745	5,554,932	5,515,437	99.29%	5,520,875	99.39%	9/30/2019
2019	798,750,616	0.745	5,950,692	5,845,960	98.24%	5,950,692	98.24%	9/30/2020

- (a) Values and levy figures as shown within the District's audited financial statements for the fiscal year ended September 30, 2019. Such values and tax levy may be subsequently adjusted.
- (b) Represents collections from October 1 of each respective tax year to September 30 of the year thereafter. Collections amounts and percentages for each tax year were obtained from the District's audited financial statements for the fiscal year ended September 30 of the year following each tax year.
- (c) With the exception of tax year 2019, represents collections from October 1 of each respective tax year to September 30, 2019. Collections amounts and percentages for each tax year were obtained from the District's audited financial statements for the fiscal year ended September 30, 2019.

District Tax Rates

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.530	\$ 0.600	\$ 0.600	\$ 0.570	\$ 0.700
Maintenance	<u>0.215</u>	<u>0.145</u>	<u>0.185</u>	<u>0.230</u>	<u>0.220</u>
	<u>\$ 0.745</u>	<u>\$ 0.745</u>	<u>\$ 0.785</u>	<u>\$ 0.800</u>	<u>\$ 0.920</u>

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
Maintenance: \$1.00/\$100 Assessed Valuation.

Maintenance Tax

The Board of the District has the statutory authority to levy and collect an annual ad valorem maintenance tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On August 13, 1994, voters authorized the District to levy a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future.

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Principal Taxpayers

The following list of top ten principal taxpayers was provided by the Tax Assessor/Collector based on the 2019 tax roll of the District, which reflect ownership as of January 1, 2019. Ownership changes subsequent to January 1, 2019, are not known to the District.

Taxpayer	Type of Property	2019 Assessed Valuation	% of Assessed Valuation
Corteen Spring Cree LLC ETAL	Land & Improvements	\$ 41,557,171	5.20%
CFHA Augusta Meadows Owner LLC	Land & Improvements	24,251,952	3.04%
SJBC Commercial X LLC	Land & Improvements	6,328,990	0.79%
Big Tex Storage LLC	Land & Personal Property	5,555,610	0.70%
Lakes at Creekside LLC (a)	Land & Improvements	5,260,963	0.66%
MDGV14 LP	Utility	3,896,679	0.49%
Centerpoint Energy Inc	Land & Improvements	3,578,974	0.45%
CLP Interests LLC	Credit Union	3,129,929	0.39%
US Employees Credit Union	Land & Improvements	3,090,189	0.39%
Jamms Real Estate LLC	Land & Improvements	<u>2,803,225</u>	<u>0.35%</u>
Total		<u>\$ 99,453,682</u>	<u>12.45%</u>

(a) See "DEVELOPMENT OF THE DISTRICT – Developers and Homebuilders."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2019 assessed valuation (\$798,750,616) and the 2020 estimated assessed valuation (\$845,146,164). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2020-2040)	\$3,010,820
Tax Rate of \$0.40 on the 2019 Certified Assessed Valuation produces	\$3,035,252
Tax Rate of \$0.38 on the 2020 Estimated Assessed Valuation produces	\$3,050,978
Maximum Annual Debt Service Requirement (2025).....	\$5,026,912
Tax Rate of \$0.67 on the 2019 Certified Assessed Valuation produces	\$5,084,048
Tax Rate of \$0.63 on the 2020 Estimated Assessed Valuation produces	\$5,058,200

Debt Service Fund Management Index

Debt Service Requirements for the calendar year ending December 31, 2021	\$4,958,704 (a)
Debt Service Fund Balance at May 12, 2020	\$6,850,745
Less: Debt Service Payments due September 1, 2020 and October 1, 2020	<u>(2,688,158)</u>
	\$4,162,587
2020 Debt Service Fund Tax Levy @ 95% collections produces	\$4,255,311 (b) <u>\$8,417,898</u>

(a) Reflects the debt service requirements after the issuance of the Bonds.

(b) Utilizing the 2020 Estimated Assessed Valuation and the 2019 debt service tax rate of \$0.53 per \$100/A.V.

DEBT SERVICE REQUIREMENTS

The following schedules set forth the current total debt service requirements of the District, plus the principal and interest requirements on the Bonds.

Year Ending December 31	Outstanding Debt Service (b)	The Bonds		Total Debt Service
		Principal	Interest	
2020	\$ 2,688,158	\$ —	\$ —	\$ 2,688,158
2021	4,730,454	160,000	68,250	4,958,704
2022	4,740,246	205,000	66,650	5,011,896
2023	4,741,905	215,000	64,600	5,021,505
2024	4,742,694	220,000	62,450	5,025,144
2025	4,741,662	225,000	60,250	5,026,912
2026	4,348,609	235,000	58,000	4,641,609
2027	3,774,353	240,000	55,650	4,070,003
2028	3,297,509	245,000	53,250	3,595,759
2029	3,336,256	255,000	50,800	3,642,056
2030	2,655,956	260,000	48,250	2,964,206
2031	2,683,876	270,000	45,650	2,999,526
2032	2,227,699	280,000	42,275	2,549,974
2033	2,245,818	285,000	38,775	2,569,593
2034	1,925,543	295,000	35,213	2,255,755
2035	1,487,628	305,000	31,156	1,823,784
2036	1,494,288	315,000	26,581	1,835,869
2037	828,788	325,000	21,856	1,175,644
2038	158,388	330,000	16,575	504,963
2039	159,263	340,000	11,213	510,475
2040	—	350,000	5,688	355,688
Total (a)	<u>\$ 57,009,089</u>	<u>\$ 5,355,000</u>	<u>\$ 863,131</u>	<u>\$ 63,227,221</u>

(a) Totals may not sum due to rounding.

(b) Outstanding as of June 1, 2020.

Average Annual Debt Service Requirement (2020-2040) \$3,010,820
Maximum Annual Debt Service Requirement (2025) \$5,026,912

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TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property 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 Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board 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 the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property are 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 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 2019 tax year, the District granted a \$15,000 exemption for residential homesteads of persons sixty-five (65) years or older or under a disability. 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 the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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 petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to 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 not exercised its option to tax goods-in-transit personal property but may choose to do so in the future. Currently, the District has no intention of taxing goods-in-transit personal property.

General Residential Homestead Exemptions

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. The District has never granted a general residential homestead exemption.

Valuation of Property for Taxation

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. 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 Deferral

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.

Tax Abatement

The City of Houston, Harris County, or the District may designate all or part of the District as a reinvestment zone, and the District, Harris 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/or 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 Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Delinquent Tax Payments for Disaster Areas

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties, and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, 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 districts differently based on the current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Special Taxing Units

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

Developed Districts

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

Developing Districts

Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax 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 the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "SELECTED FINANCIAL INFORMATION—Estimated Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. 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 Collections and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision other than the District. The Bonds are secured by an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing and commercial retail industries, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is primarily related to the vitality of the residential housing industry in the Greater Houston Metropolitan Area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, oil prices, energy availability, gasoline prices, credit availability and consumer demand. Decreased levels of home construction activity tend to restrict the growth of property values in the District. See "DEVELOPMENT OF THE DISTRICT."

Interest rates have a direct impact on the level of housing construction activity. Long-term rates affect a home purchaser's ability to qualify for and to afford the total financing costs of a new home. High long-term interest rates may negatively affect home sales and the rate of growth of taxable property values in the District. Further, the short-term interest rates at which developers and builders are able to obtain financing for development and building costs may affect the developers' or builders' ability or willingness to complete development or building plans.

Maximum Impact on District Tax Rate: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2019 certified assessed valuation of the District is \$798,750,616 and the 2020 estimated assessed valuation of the District is \$845,146,164 (see "SELECTED FINANCIAL INFORMATION"). After issuance of the Bonds, the maximum annual debt service requirement for the Bonds and the Outstanding Bonds is to be \$5,026,912 (2025) and the average annual debt service requirement for the Bonds and the Outstanding Bonds is to be \$3,010,820 (2020 through 2040, inclusive). Based on the 2019 certified assessed valuation and no use of funds on hand, a tax rate of \$0.67 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the maximum annual debt service requirement for the Bonds and the Outstanding Bonds and a tax rate of \$0.40 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement for the Bonds and the Outstanding Bonds. Based on the 2020 estimated assessed valuation and no use of funds on hand, a tax rate of \$0.63 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the maximum annual debt service requirement for the Bonds and the Outstanding Bonds, and a tax rate of \$0.38 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement for the Bonds and the Outstanding Bonds. See "DEBT SERVICE REQUIREMENTS" and "SELECTED FINANCIAL INFORMATION - Tax Adequacy for Debt Service."

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Tax Collections and Foreclosure Remedies

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

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

Notwithstanding noncompliance by the 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 the 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 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.

The District may not be placed into bankruptcy involuntarily.

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$46,875,000 authorized but unissued unlimited tax bonds (see "SELECTED FINANCIAL INFORMATION – Unlimited Tax Bonds Authorized but Unissued"), and such additional bonds as may hereafter be approved by both the Board and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order. All of the remaining bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ in certain instances, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "THE BONDS – Issuance of Additional Debt."

According to the Engineer, following the issuance of the Bonds, and with respect to funds advanced by The Lakes of Creekside, LLC to date, the District will not owe The Lakes of Creekside, LLC any reimbursement for funds advanced to date.

Future and Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Collection of Taxes

The District's ability to pay debt service on the Bonds may be adversely affected by its ability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien on the property in favor of the District on a parity with the lien of all other state and local authorities. Such lien can be foreclosed in judicial proceedings. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of a tax collection procedure against a taxpayer or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property including the taxpayer's right to redeem property for a specified period of time after foreclosure at the foreclosure sale price. See "TAXING PROCEDURES – Levy and Collection of Taxes."

Marketability of the Bonds

The District has no understanding with the Initial Purchaser 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 may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold and traded in the secondary market.

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

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

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

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

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

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

be necessary to allow the HGB Area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB Area's economic growth and development.

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

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

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

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

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the State from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches;

(e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR is effective on June 20, 2020, and is the subject of ongoing 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.

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 the State. 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 State Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in the State (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.

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 the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. In addition to the actions by the State and federal officials, certain local officials have declared a local state of disaster and have issued “shelter-in-place” orders. Many of the federal, State and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which negatively affects the operation of businesses and the State and national economies.

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 the State. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. The State may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

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

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

Dependence on the Oil and Gas Industry

Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation’s oil trading. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact the

businesses of taxpayers and the property values in the District, resulting in less local tax revenue. See “INVESTMENT CONSIDERATIONS – Infectious Disease Outbreak – COVID-19.” Texas may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in Texas and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted.

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Potential Impact of Natural Disaster

The District is located approximately 60 miles from the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value in the District or an increase in the District's tax rates. See "TAXING PROCEDURES – Valuation of Property for Taxation."

There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District are adversely affected.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District is located approximately 75 miles from the Texas Gulf Coast. Accordingly, like other coastal areas, land located in the District is susceptible to hurricanes, tropical storms, and other tropical disturbances.

According to the District's Operator, the District's System did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the District's Operator and Engineer, no structures within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS - Tax Exemption."

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment

of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the bond insurer chooses to pay such amounts at an earlier date.

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

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer and its claim paying ability. The bond 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 bond insurer and of the ratings on the Bonds insured by the bond 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 "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING."

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

Neither the Issuer nor the Initial Purchaser has made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond 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 bond insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" herein for further information provided by the bond insurer and the Policy, which includes further instructions for obtaining current financial information concerning the bond insurer.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser 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 Smith, Murdaugh, Little & Bonham, 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 and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. 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. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Smith, Murdaugh, Little & Bonham, 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 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 District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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, Smith, Murdaugh, Little & Bonham, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT — General," and "— Management of the District — Bond Counsel and General Counsel," "TAXING PROCEDURES," "LEGAL MATTERS" and CONTINUING DISCLOSURE OF INFORMATION" (except for " — Compliance with Prior Undertakings") solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

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

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result.

Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," which are designated by an issuer as "qualified tax-exempt obligations." Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code due to the fact that the reasonably anticipated amount of tax-exempt obligations which will be issued by the District during the calendar year 2020, including the Bonds, will exceed \$10,000,000.

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, owners of interests in a FASIT, 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 allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS,

INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be included as an adjustment for “adjusted current earnings” of a corporation for purposes of computing its alternative minimum tax under Section 55 of the Code.

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.

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the “Original Issue Discount Bonds”). The difference between (i) the “stated redemption price at 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. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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 amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH 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 may be 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.

NO MATERIAL ADVERSE CHANGE

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District 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 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 Initial Purchaser 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 Lakes at Creekside, LLC, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. 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

Robert W. Baird & Co., Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Robert W. Baird & Co., Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

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

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

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been

provided by Van De Wiele & Vogler, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. A copy of the District's audit prepared by Roth & Eyring, PLLC for the fiscal year ended September 30, 2019, is included as "APPENDIX A" to this Official Statement.

Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period," (as defined in Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the "SEC")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreements for the benefit of the holders 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 ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system which is available at www.msrb.emma.org.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and publicly available to the MSRB annually. The financial information and operating data which will be provided is found in the section titled "SELECTED FINANCIAL INFORMATION" and in "APPENDIX A."

The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material 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 the United States Securities and Exchange Commission Rule 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; (15) incurrence of a financial obligation of the District or 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 obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement 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 such Rule 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 nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser 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 reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

On August 8, 2017, the District advance refunded a portion of the District’s Unlimited Tax Bonds, Series 2009, with the proceeds of the District’s Unlimited Tax Refunding Bonds, Series 2017. While the notice of redemption was filed in a timely manner, the notice of defeasance was not filed until August 1, 2018, and was thus deemed a late filing. To date, all required information has been filed.

The District is not aware of any other failure to comply, in the last five years, with any other continuing disclosure agreements made by them in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

/s/ Doug Caldwell, Jr.
President, Board of Directors
Harris County Municipal Utility District No. 1

ATTEST:

/s/ James E. Robertson
Secretary, Board of Directors
Harris County Municipal Utility District No. 1

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken July 2020)



APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 1
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2019

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Mark C. Eyring, CPA, PLLC

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January 14, 2020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 1
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 1, as of and for the year ended September 30, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 1 as of September 30, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 22 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 23 to 48 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in dark ink, appearing to read "M. G. J.", is located in the lower right portion of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2019.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 13,792,596	\$ 15,208,364	\$ (1,415,768)
Capital assets	44,822,669	40,107,934	4,714,735
Total assets	<u>58,615,265</u>	<u>55,316,298</u>	<u>3,298,967</u>
Long-term liabilities	46,074,144	46,157,818	(83,674)
Other liabilities	4,849,301	4,537,633	311,668
Total liabilities	<u>50,923,445</u>	<u>50,695,451</u>	<u>227,994</u>
Net position:			
Invested in capital assets, net of related debt	(4,414,287)	(9,124,174)	4,709,887
Restricted	6,167,401	8,311,475	(2,144,074)
Unrestricted	5,938,706	5,433,546	505,160
Total net position	<u>\$ 7,691,820</u>	<u>\$ 4,620,847</u>	<u>\$ 3,070,973</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 5,560,725	\$ 5,663,396	\$ (102,671)
Charges for services	3,391,025	3,284,882	106,143
Other revenues	441,245	303,094	138,151
Total revenues	<u>9,392,995</u>	<u>9,251,372</u>	<u>141,623</u>
Expenses:			
Service operations	4,815,360	5,252,949	(437,589)
Debt service	1,506,662	1,987,602	(480,940)
Total expenses	<u>6,322,022</u>	<u>7,240,551</u>	<u>(918,529)</u>
Change in net position	3,070,973	2,010,821	1,060,152
Net position, beginning of year	<u>4,620,847</u>	<u>2,610,026</u>	<u>2,010,821</u>
Net position, end of year	<u>\$ 7,691,820</u>	<u>\$ 4,620,847</u>	<u>\$ 3,070,973</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2019, were \$11,968,358, a decrease of \$1,667,466 from the prior year.

The General Fund balance increased by \$500,136, primarily due to capital expenditures.

The Debt Service Fund balance increased by \$26,117, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$2,193,719, as authorized expenditures exceeded interest earnings.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 22 of this report. The budgetary fund balance as of September 30, 2019, was expected to be \$5,414,821 and the actual end of year fund balance was \$5,914,957.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land and detention ponds	\$ 16,472,596	\$ 16,472,596	\$ 0
Construction in progress	8,127,066	2,633,722	5,493,344
Water facilities	7,596,573	7,935,427	(338,854)
Sewer facilities	12,626,434	13,066,189	(439,755)
Totals	<u>\$ 44,822,669</u>	<u>\$ 40,107,934</u>	<u>\$ 4,714,735</u>

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

Additions:

Construction by developers	\$ 3,079,138
Water Plant No. 4	2,259,174
Water system improvements	64,518
Sewer system improvements	16,453
Detention improvements	71,742
Trail system	39,331
Total additions to capital assets	<u>5,530,356</u>

Decreases:

Depreciation	<u>(815,621)</u>
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Net change to capital assets	<u>\$ 4,714,735</u>
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Debt

On October 10, 2019, the District issued its Series 2019 unlimited tax bonds in the amount of \$2,340,000.

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

Bonded debt payable, beginning of year	\$ 48,520,000
Bonds paid	<u>(3,135,000)</u>
Bonded debt payable, end of year	<u>\$ 45,385,000</u>

At September 30, 2019, the District had \$54,570,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds prior to 2014 have an underlying rating of BBB+ by Standard & Poor's and the Series 2014, 2014 refunding bonds, and 2016 bonds have an underlying rating of A2 by Moody's. The Series 2016 and 2017 refunding bonds are not insured and not rated. The Series 2010, 2011, 2016 and 2017 bonds are insured by Assured Guaranty Municipal Corp. and the Series 2009 bonds are insured by Assured Guaranty Corp. The Series 2013 and 2014 refunding bonds are insured by Build America Mutual Assurance Company. The Series 2014 bonds are insured by Municipal Assurance Corp. Because of the insurance, the Series 2009, 2010, 2011, 2013, 2014, 2014 refunding, 2016 and 2017 bonds are rated AA by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2019.

As further described in Note 5 of the notes to the financial statements, developers within the District are constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At September 30, 2019, the estimated amount due to developers was \$4,202,732.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$27,820,000 for the 2018 tax year (approximately 4%) due to the increase in assessed valuation on existing property and the addition of new houses within the District.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 13, 2010. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services (primarily police). Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At September 30, 2019, the pumpage fee was equal to \$3.85 per 1,000 gallons pumped, and is expected to increase in the future. At September 30, 2019, the Authority's surface water usage fee was equal to \$4.30 per 1,000 gallons, and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$1,492,408	\$ 146	\$ 101	\$ 1,492,655	\$	\$ 1,492,655
Certificates of deposit, at cost, Note 7	3,600,000	3,120,000		6,720,000		6,720,000
Temporary investments, at cost, Note 7	1,443,977	1,492,598	1,942,565	4,879,140		4,879,140
Receivables:						
Property taxes	23,749	116,750		140,499		140,499
Service accounts	370,065			370,065		370,065
Sales and Use taxes, Note 10	20,749			20,749		20,749
Accrued interest	50,584	36,414		86,998		86,998
Other	1,226			1,226		1,226
Due from other fund	2,121			2,121	(2,121)	0
Prepaid expenditures	81,264			81,264		81,264
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	24,599,662	24,599,662
Depreciable capital assets				0	20,223,007	20,223,007
Total assets	<u>\$7,086,143</u>	<u>\$4,765,908</u>	<u>\$ 1,942,666</u>	<u>\$13,794,717</u>	<u>44,820,548</u>	<u>58,615,265</u>
LIABILITIES						
Accounts payable	\$ 391,097	\$	\$ 6,654	\$ 397,751		397,751
Construction contracts payable	108,542		529,648	638,190		638,190
Due to Harris County	81,118			81,118		81,118
Accrued interest payable				0	2,750	2,750
Customer and builder deposits	566,680			566,680		566,680
Due to other fund			2,121	2,121	(2,121)	0
Long-term liabilities, Note 5:						
Due within one year				0	3,162,812	3,162,812
Due in more than one year				0	46,074,144	46,074,144
Total liabilities	<u>1,147,437</u>	<u>0</u>	<u>538,423</u>	<u>1,685,860</u>	<u>49,237,585</u>	<u>50,923,445</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>23,749</u>	<u>116,750</u>	<u>0</u>	<u>140,499</u>	<u>(140,499)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Committed to construction contracts in progress	261,324		964,844	1,226,168	(1,226,168)	0
Assigned to:						
Debt service		4,649,158		4,649,158	(4,649,158)	0
Capital projects			439,399	439,399	(439,399)	0
Unassigned	<u>5,653,633</u>			<u>5,653,633</u>	<u>(5,653,633)</u>	<u>0</u>
Total fund balances	<u>5,914,957</u>	<u>4,649,158</u>	<u>1,404,243</u>	<u>11,968,358</u>	<u>(11,968,358)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$7,086,143</u>	<u>\$4,765,908</u>	<u>\$ 1,942,666</u>	<u>\$13,794,717</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(4,414,287)	(4,414,287)
Restricted for debt service					4,763,158	4,763,158
Restricted for capital projects					1,404,243	1,404,243
Unrestricted					<u>5,938,706</u>	<u>5,938,706</u>
Total net position					<u>\$ 7,691,820</u>	<u>\$ 7,691,820</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 1,074,730	\$ 4,446,145	\$	\$ 5,520,875	\$ 27,302	\$ 5,548,177
Water service	858,006			858,006		858,006
Sewer service	990,229			990,229		990,229
Surface water fees, Note 9	1,272,093			1,272,093		1,272,093
Penalty and interest	53,887	12,548		66,435		66,435
Tap connection and inspection fees	167,287			167,287		167,287
Sales and Use Taxes, Note 10	84,715			84,715		84,715
Interest on deposits and investments	134,955	152,554	69,021	356,530		356,530
Other revenues	49,523			49,523		49,523
Total revenues	4,685,425	4,611,247	69,021	9,365,693	27,302	9,392,995
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	198,628		2,566	201,194		201,194
Contracted services	255,425	2,928	1,000	259,353		259,353
Utilities	212,621			212,621		212,621
Surface water pumpage fees, Note 9	1,324,300			1,324,300		1,324,300
Repairs and maintenance	564,123			564,123		564,123
Other operating expenditures	207,899			207,899		207,899
Security service	276,660			276,660		276,660
Garbage disposal	514,591			514,591		514,591
Administrative expenditures	169,117			169,117		169,117
Depreciation				0	815,621	815,621
Capital outlay / non-capital outlay	461,925		2,259,174	2,721,099	(2,451,218)	269,881
Debt service:						
Principal retirement		3,135,000		3,135,000	(3,135,000)	0
Interest and fees		1,447,202		1,447,202	59,460	1,506,662
Total expenditures / expenses	4,185,289	4,585,130	2,262,740	11,033,159	(4,711,137)	6,322,022
Excess (deficiency) of revenues over expenditures	500,136	26,117	(2,193,719)	(1,667,466)	4,738,439	3,070,973
Net change in fund balances / net position	500,136	26,117	(2,193,719)	(1,667,466)	4,738,439	3,070,973
Beginning of year, restated	5,414,821	4,623,041	3,597,962	13,635,824	(9,014,977)	4,620,847
End of year	\$ 5,914,957	\$ 4,649,158	\$ 1,404,243	\$ 11,968,358	\$ (4,276,538)	\$ 7,691,820

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2019

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 1 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective May 31, 1972, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, and to provide parks and recreational facilities and equipment. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 11,968,358
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		44,822,669
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (45,385,000)	
Deferred charge on refunding (to be amortized as interest expense)	231,522	
Issuance discount, net of (premium) (to be amortized as interest expense)	119,254	
Due to developers	<u>(4,202,732)</u>	(49,236,956)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		140,499
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(2,750)</u>
Net position, end of year		<u>\$ 7,691,820</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (1,667,466)
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 2,451,218	
Depreciation	<u>(815,621)</u>	1,635,597
The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:		
Principal reduction		3,135,000
The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:		
Refunding charges	(39,353)	
Issuance discount, net of premium	<u>(21,357)</u>	(60,710)
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Uncollected property taxes		27,302
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:		
Accrued interest		<u>1,250</u>
Change in net position		<u>\$ 3,070,973</u>

NOTE 4: CAPITAL ASSETS

At September 30, 2019, "Invested in capital assets, net of related debt" was \$(4,414,287). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and detention ponds	\$ 16,472,596	\$	\$	\$ 16,472,596
Construction in progress	<u>2,633,722</u>	<u>5,493,344</u>		<u>8,127,066</u>
Total capital assets not being depreciated	<u>19,106,318</u>	<u>5,493,344</u>	<u>0</u>	<u>24,599,662</u>
Depreciable capital assets:				
Water system	12,500,104	20,559		12,520,663
Sewer system	<u>18,674,237</u>	<u>16,453</u>		<u>18,690,690</u>
Total depreciable capital assets	<u>31,174,341</u>	<u>37,012</u>	<u>0</u>	<u>31,211,353</u>
Less accumulated depreciation for:				
Water system	(4,564,677)	(359,413)		(4,924,090)
Sewer system	<u>(5,608,048)</u>	<u>(456,208)</u>		<u>(6,064,256)</u>
Total accumulated depreciation	<u>(10,172,725)</u>	<u>(815,621)</u>	<u>0</u>	<u>(10,988,346)</u>
Total depreciable capital assets, net	<u>21,001,616</u>	<u>(778,609)</u>	<u>0</u>	<u>20,223,007</u>
Total capital assets, net	<u>\$ 40,107,934</u>	<u>\$ 4,714,735</u>	<u>\$ 0</u>	<u>\$ 44,822,669</u>
Changes to capital assets:				
Capital outlay		\$ 2,451,218	\$	
Increase in liability to developers		3,079,138		
Less depreciation expense for the fiscal year		<u>(815,621)</u>		
Net increases / decreases to capital assets		<u>\$ 4,714,735</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

After the fiscal year ended September 30, 2019, the District issued its Series 2019 unlimited tax bonds in the amount of \$2,340,000 on October 10, 2019.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 48,520,000	\$	\$ 3,135,000	\$ 45,385,000	\$ 3,225,000
Deferred amounts:					
For issuance (discounts) premiums	(140,611)		(21,357)	(119,254)	(24,153)
For refunding	<u>(270,875)</u>		<u>(39,353)</u>	<u>(231,522)</u>	<u>(38,035)</u>
Total bonds payable	<u>48,108,514</u>	<u>0</u>	<u>3,074,290</u>	<u>45,034,224</u>	<u>3,162,812</u>
Due to developers (see below)	<u>1,123,594</u>	<u>3,079,138</u>	<u>0</u>	<u>4,202,732</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 49,232,108</u>	<u>\$ 3,079,138</u>	<u>\$ 3,074,290</u>	<u>\$ 49,236,956</u>	<u>\$ 3,162,812</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Developer Construction Commitments and Liabilities

Developers within the District are constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at September 30, 2019, was \$4,202,732. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,225,000	\$ 1,360,269	\$ 4,585,269
2021	3,320,000	1,268,926	4,588,926
2022	3,425,000	1,170,517	4,595,517
2023	3,530,000	1,069,076	4,599,076
2024	3,635,000	961,764	4,596,764
2025 - 2029	15,460,000	3,299,646	18,759,646
2030 - 2034	9,620,000	1,359,493	10,979,493
2035 - 2037	<u>3,170,000</u>	<u>174,290</u>	<u>3,344,290</u>
	<u>\$ 45,385,000</u>	<u>\$ 10,663,981</u>	<u>\$ 56,048,981</u>

Bonds voted	\$ 118,500,000
Bonds approved for sale and sold	63,930,000
Bonds voted and not issued	54,570,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2013, 2014 and 2016 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	<u>Series 2009</u>	<u>Refunding Series 2010</u>	<u>Series 2011</u>
Amounts outstanding, September 30, 2019	\$825,000	\$2,200,000	\$4,120,000
Interest rates	4.00%	4.00% to 4.25%	4.00%
Maturity dates, serially beginning/ending	September 1, 2020/2021	April 1, 2020/2025	September 1, 2020/2031
Interest payment dates	March 1/September 1	April 1/October 1	March 1/September 1
Callable dates	September 1, 2018*	April 1, 2020*	September 1, 2021*
	<u>Series 2013</u>	<u>Series 2014</u>	<u>Refunding Series 2014</u>
Amounts outstanding, September 30, 2019	\$3,265,000	\$4,630,000	\$4,565,000
Interest rates	2.75% to 4.75%	2.00% to 3.75%	2.00% to 3.50%
Maturity dates, serially beginning/ending	September 1, 2020/2033	September 1, 2020/2034	April 1, 2020/2026
Interest payment dates	March 1/September 1	March 1/September 1	April 1/October 1
Callable dates	September 1, 2021*	September 1, 2022*	April 1, 2023*
	<u>Refunding Series 2016</u>	<u>Series 2016</u>	<u>Refunding Series 2017</u>
Amounts outstanding, September 30, 2019	\$3,570,000	\$8,545,000	\$4,780,000
Interest rates	2.51%	2.00% to 2.50%	2.62%
Maturity dates, serially beginning/ending	April 1, 2020/2027	September 1, 2020/2036	September 1, 2020/2029
Interest payment dates	April 1/October 1	March 1/September 1	March 1/September 1
Callable dates	April 1, 2024*	September 1, 2024*	Any date*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Series 2017</u>
Amounts outstanding, September 30, 2019	\$8,885,000
Interest rates	2.00% to 3.35%
Maturity dates, serially beginning/ending	September 1, 2020/2037
Interest payment dates	March 1/September 1
Callable dates	September 1, 2025*

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

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held August 13, 1994, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On October 9, 2018, the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$745,163,855:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.6000	\$ 4,473,771
Maintenance	<u>0.1450</u>	<u>1,081,161</u>
	<u>\$ 0.7450</u>	<u>\$ 5,554,932</u>

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

2018 tax year total property tax levy	\$ 5,554,932
Appraisal district adjustments to prior year taxes	<u>(6,755)</u>
Statement of Activities property tax revenues	<u>\$ 5,548,177</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and an authorized private sector investment pool. The private sector investment pool is rated AAAm by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$8,212,655 and the bank balance was \$8,108,040. Of the bank balance, \$6,490,000 was covered by federal insurance, \$1,618,040 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in the authorized private sector investment pool was \$4,879,140.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 146
Certificates of deposit	3,120,000
Temporary investments	<u>1,492,598</u>
	<u>\$ 4,612,744</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 101
Temporary investments	<u>1,942,565</u>
	<u>\$ 1,942,666</u>

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At September 30, 2019, the District had physical damage and boiler and machinery coverage of \$15,100,173, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution coverage of \$1,000,000 and consultant's crime coverage of \$10,000.

NOTE 9: REGIONAL WATER AUTHORITY

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of September 30, 2019, the Authority had established a well pumpage fee of \$3.85 per 1,000 gallons of water pumped from each regulated well. The District's well pumpage fees payable to the Authority for the fiscal year ended September 30, 2019, were \$1,324,300. The District billed its customers \$1,272,093 during the fiscal year to pay for the fees charged by the Authority.

NOTE 10: STRATEGIC PARTNERSHIP AGREEMENT

Effective December 13, 2010, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$84,715 from the City for the fiscal year ended September 30, 2019, of which \$20,749 was receivable at that date.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Property taxes	\$ 1,320,600	\$ 1,320,600	\$ 1,074,730	\$ (245,870)
Water service	910,000	910,000	858,006	(51,994)
Sewer service	985,000	985,000	990,229	5,229
Surface water fees	1,362,000	1,362,000	1,272,093	(89,907)
Penalty	56,000	56,000	53,887	(2,113)
Tap connection and inspection fees	98,700	98,700	167,287	68,587
Sales and Use Taxes	88,000	88,000	84,715	(3,285)
Interest on deposits and investments	100,500	100,500	134,955	34,455
Other revenues	48,636	48,636	49,523	887
TOTAL REVENUES	4,969,436	4,969,436	4,685,425	(284,011)
EXPENDITURES				
Service operations:				
Professional fees	241,950	241,950	198,628	(43,322)
Contracted services	270,850	270,850	255,425	(15,425)
Utilities	225,000	225,000	212,621	(12,379)
Surface water pumpage fees	1,362,000	1,362,000	1,324,300	(37,700)
Repairs and maintenance	928,250	928,250	564,123	(364,127)
Other operating expenditures	229,359	229,359	207,899	(21,460)
Security service	279,427	279,427	276,660	(2,767)
Garbage disposal	509,040	509,040	514,591	5,551
Administrative expenditures	169,250	169,250	169,117	(133)
Capital outlay	1,010,500	1,010,500	461,925	(548,575)
TOTAL EXPENDITURES	5,225,626	5,225,626	4,185,289	(1,040,337)
EXCESS REVENUES (EXPENDITURES)	(256,190)	(256,190)	500,136	756,326
OTHER FINANCING SOURCES (USES)				
Reimbursement (to) from other fund	256,190	256,190	0	(256,190)
TOTAL OTHER FINANCIAL SOURCES (USES)	256,190	256,190	0	(256,190)
EXCESS SOURCES (USES)	0	0	500,136	500,136
FUND BALANCE, BEGINNING OF YEAR	5,414,821	5,414,821	5,414,821	0
FUND BALANCE, END OF YEAR	\$ 5,414,821	\$ 5,414,821	\$ 5,914,957	\$ 500,136

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SEPTEMBER 30, 2019

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Certificates of Deposit
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF SERVICES AND RATES
SEPTEMBER 30, 2019

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

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$16.00	5,000	N	\$1.25	5,001 to 10,000
				1.50	10,001 to 15,000
				2.00	15,001 to 20,000
				2.50	Over 20,000
WASTEWATER:	\$23.50	50,000	N	\$0.50	Over 50,000
SURCHARGE:	\$4.24 per 1,000 gallons of water used. – NHCRWA surface water fees.				

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

Total charges per 10,000 gallons usage: Water: \$22.25 Wastewater: \$23.50 Surcharge: \$42.40

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF SERVICES AND RATES (Continued)
SEPTEMBER 30, 2019

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	2,537	2,521	1.0	2,521
1"	395	393	2.5	983
1-1/2"	9	9	5.0	45
2"	47	47	8.0	376
3"	1	1	15.0	15
4"	0	0	25.0	0
6"	6	6	50.0	300
8"	3	3	80.0	240
10"	0	0	115.0	0
Total Water	<u>2,998</u>	<u>2,980</u>		<u>4,480</u>
Total Wastewater	<u>2,935</u>	<u>2,917</u>	1.0	<u>2,917</u>

*Single family equivalents

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

Gallons pumped into system (unaudited): 346,705
Gallons billed to customers (unaudited): 314,317

Water Accountability Ratio
(Gallons billed/ gallons pumped): 91%

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

If yes, date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees? Yes ☐ No ☒

If yes, date of the most recent Commission Order: _____

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 10,950	\$	\$	\$ 10,950
Legal	122,167			122,167
Engineering	65,511		2,566	68,077
	<u>198,628</u>	<u>0</u>	<u>2,566</u>	<u>201,194</u>
Contracted services:				
Bookkeeping	36,823		1,000	37,823
Operation and billing	177,439			177,439
Tax assessor-collector		2,928		2,928
Central appraisal district	41,163			41,163
	<u>255,425</u>	<u>2,928</u>	<u>1,000</u>	<u>259,353</u>
Utilities	<u>212,621</u>	<u>0</u>	<u>0</u>	<u>212,621</u>
Surface water pumpage fees	<u>1,324,300</u>	<u>0</u>	<u>0</u>	<u>1,324,300</u>
Repairs and maintenance	<u>564,123</u>	<u>0</u>	<u>0</u>	<u>564,123</u>
Other operating expenditures:				
Sludge hauling	67,780			67,780
Chemicals	34,473			34,473
Laboratory costs	33,431			33,431
Inspection costs	19,955			19,955
Reconnection costs	36,854			36,854
TCEQ assessment	8,975			8,975
Other	6,431			6,431
	<u>207,899</u>	<u>0</u>	<u>0</u>	<u>207,899</u>
Security service	<u>276,660</u>	<u>0</u>	<u>0</u>	<u>276,660</u>
Garbage disposal	<u>514,591</u>	<u>0</u>	<u>0</u>	<u>514,591</u>
Administrative expenditures:				
Director's fees	17,400			17,400
Office supplies and postage	72,186			72,186
Insurance	28,247			28,247
Permit fees	17,972			17,972
Other	33,312		0	33,312
	<u>169,117</u>	<u>0</u>	<u>0</u>	<u>169,117</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1EXPENDITURES (Continued)FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 369,973	\$	\$ 2,259,174	\$ 2,629,147
Tap connection costs	91,952			91,952
	<u>461,925</u>	<u>0</u>	<u>2,259,174</u>	<u>2,721,099</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>3,135,000</u>	<u>0</u>	<u>3,135,000</u>
Interest and fees:				
Interest		1,442,737		1,442,737
Paying agent fees		4,465		4,465
	<u>0</u>	<u>1,447,202</u>	<u>0</u>	<u>1,447,202</u>
TOTAL EXPENDITURES	<u>\$ 4,185,289</u>	<u>\$ 4,585,130</u>	<u>\$ 2,262,740</u>	<u>\$ 11,033,159</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 3,482,324	\$ 4,599,882	\$ 69,021	\$ 8,151,227
Maintenance tax receipts		1,074,730		1,074,730
Transfer of maintenance taxes	1,074,292			1,074,292
Increase in customer and builder deposits	32,418			32,418
Reimbursement from other fund	<u>3,927</u>			<u>3,927</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>4,592,961</u>	<u>5,674,612</u>	<u>69,021</u>	<u>10,336,594</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	3,535,902	2,928	3,566	3,542,396
Capital outlay	353,383		2,360,641	2,714,024
Debt service		4,582,202		4,582,202
Prepaid expenses	58,209			58,209
Other fund	2,121			2,121
Transfer of maintenance taxes		1,074,292		1,074,292
Reimbursement to other fund			<u>3,927</u>	<u>3,927</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>3,949,615</u>	<u>5,659,422</u>	<u>2,368,134</u>	<u>11,977,171</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	643,346	15,190	(2,299,113)	(1,640,577)
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>5,893,039</u>	<u>4,597,554</u>	<u>4,241,779</u>	<u>14,732,372</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 6,536,385</u>	<u>\$ 4,612,744</u>	<u>\$ 1,942,666</u>	<u>\$ 13,091,795</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTSSEPTEMBER 30, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 91300011877134	2.75%	2/25/20	\$ 240,000	\$ 3,924
No. 6752506815	2.60%	10/15/19	240,000	5,966
No. 83345199	2.45%	7/17/20	240,000	1,208
No. 71123561	2.60%	5/12/20	240,000	2,393
No. 12073	2.58%	6/06/20	240,000	1,951
No. 440006363	2.70%	4/14/20	240,000	2,983
No. 4189343	2.45%	12/19/19	240,000	4,591
No. 2000000015	2.65%	2/22/20	240,000	3,833
No. 13793	2.60%	1/18/20	240,000	4,359
No. 3116003354	2.60%	4/20/20	240,000	2,770
No. 0460018721	2.65%	3/13/20	240,000	3,502
No. 312371	2.65%	3/21/20	240,000	3,346
No. 6000022811	2.60%	1/10/20	240,000	4,359
No. 6324	2.45%	11/15/19	240,000	5,155
No. 9009004034	2.05%	9/11/20	<u>240,000</u>	<u>244</u>
			<u>\$ 3,600,000</u>	<u>\$ 50,584</u>
Texas CLASS				
No. TX-01-0583-0001	Market	On demand	<u>\$ 1,443,977</u>	<u>\$ 0</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS (Continued)

SEPTEMBER 30, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 5000007830	2.60%	3/18/20	\$ 240,000	\$ 3,351
No. 991300011897354	2.75%	8/22/20	240,000	705
No. 6775765281	2.05%	8/19/20	240,000	553
No. 66000930	2.10%	8/20/20	240,000	552
No. 12262	2.65%	3/18/20	240,000	3,415
No. 440005289	2.70%	2/07/20	240,000	4,172
No. 4190309	2.65%	2/11/20	240,000	4,025
No. 0123047496	2.55%	2/10/20	240,000	3,890
No. 2000000038	2.65%	2/13/20	240,000	3,990
No. 14398	2.60%	2/07/20	240,000	4,018
No. 3216000123	2.60%	3/11/20	240,000	3,453
No. 0460018553	2.65%	3/12/20	240,000	3,520
No. 6000022803	2.60%	8/15/20	240,000	770
			<u>\$ 3,120,000</u>	<u>\$ 36,414</u>
Texas CLASS				
No. TX-01-0583-0002	Market	On demand	<u>\$ 1,492,598</u>	<u>\$ 0</u>
CAPITAL PROJECTS FUND				
Texas CLASS				
No. TX-01-0583-0004	Market	On demand	<u>\$ 1,942,565</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 11,599,140</u>	<u>\$ 86,998</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1TAXES LEVIED AND RECEIVABLEFOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 18,725	\$ 94,472
Additions and corrections to prior year taxes	<u>(1,407)</u>	<u>(5,348)</u>
Adjusted receivable, beginning of year	17,318	89,124
2018 ADJUSTED TAX ROLL	<u>1,081,161</u>	<u>4,473,771</u>
Total to be accounted for	1,098,479	4,562,895
Tax collections: Current tax year	(1,073,474)	(4,441,963)
Prior tax years	<u>(1,256)</u>	<u>(4,182)</u>
RECEIVABLE, END OF YEAR	<u>\$ 23,749</u>	<u>\$ 116,750</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 527	\$ 10,566
2009	106	2,114
2010	310	6,142
2011	335	6,631
2012	408	8,004
2013	447	6,069
2014	3,016	13,238
2015	2,489	7,919
2016	4,005	9,926
2017	4,419	14,333
2018	<u>7,687</u>	<u>31,808</u>
RECEIVABLE, END OF YEAR	<u>\$ 23,749</u>	<u>\$ 116,750</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 745,163,855</u>	<u>\$ 717,343,337</u>	<u>\$ 677,001,684</u>	<u>\$ 594,925,694</u>
TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.60000	\$ 0.60000	\$ 0.57000	\$ 0.70000
Maintenance tax rates*	<u>0.14500</u>	<u>0.18500</u>	<u>0.23000</u>	<u>0.22000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.74500</u>	<u>\$ 0.78500</u>	<u>\$ 0.80000</u>	<u>\$ 0.92000</u>
TAX ROLLS	<u>\$ 5,554,932</u>	<u>\$ 5,637,030</u>	<u>\$ 5,410,490</u>	<u>\$ 5,474,979</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.3 %</u>	<u>99.7 %</u>	<u>99.8 %</u>	<u>99.7 %</u>

*Maximum tax rate approved by voters on August 13, 1994: \$1.00

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2009</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1 September 1</u>	<u>Total</u>
2020	\$ 400,000	\$ 33,000	\$ 433,000
2021	425,000	17,000	442,000
TOTALS	<u>\$ 825,000</u>	<u>\$ 50,000</u>	<u>\$ 875,000</u>

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

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2010 Refunding</u>		
	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 325,000	\$ 83,512	\$ 408,512
2021	340,000	70,213	410,213
2022	360,000	56,212	416,212
2023	370,000	41,612	411,612
2024	390,000	25,925	415,925
2025	415,000	8,819	423,819
TOTALS	<u>\$ 2,200,000</u>	<u>\$ 286,293</u>	<u>\$ 2,486,293</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

Due During Fiscal Years Ending September 30	Series 2011		
	Principal Due September 1	Interest Due March 1 September 1	Total
2020	\$ 250,000	\$ 164,800	\$ 414,800
2021	265,000	154,800	419,800
2022	280,000	144,200	424,200
2023	295,000	133,000	428,000
2024	310,000	121,200	431,200
2025	330,000	108,800	438,800
2026	345,000	95,600	440,600
2027	365,000	81,800	446,800
2028	385,000	67,200	452,200
2029	410,000	51,800	461,800
2030	430,000	35,400	465,400
2031	455,000	18,200	473,200
TOTALS	<u>\$ 4,120,000</u>	<u>\$ 1,176,800</u>	<u>\$ 5,296,800</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2013</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 165,000	\$ 134,541	\$ 299,541
2021	175,000	130,004	305,004
2022	185,000	124,579	309,579
2023	195,000	118,381	313,381
2024	200,000	111,556	311,556
2025	210,000	104,156	314,156
2026	225,000	95,966	320,966
2027	235,000	86,966	321,966
2028	245,000	77,273	322,273
2029	260,000	66,738	326,738
2030	270,000	55,298	325,298
2031	285,000	42,608	327,608
2032	300,000	29,212	329,212
2033	315,000	14,962	329,962
TOTALS	<u>\$ 3,265,000</u>	<u>\$ 1,192,240</u>	<u>\$ 4,457,240</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2014</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 210,000	\$ 144,625	\$ 354,625
2021	220,000	140,425	360,425
2022	235,000	136,025	371,025
2023	245,000	130,150	375,150
2024	260,000	124,025	384,025
2025	270,000	116,875	386,875
2026	285,000	109,450	394,450
2027	300,000	101,612	401,612
2028	320,000	92,613	412,613
2029	335,000	82,212	417,212
2030	350,000	71,325	421,325
2031	370,000	59,075	429,075
2032	390,000	46,125	436,125
2033	410,000	31,500	441,500
2034	430,000	16,125	446,125
TOTALS	<u>\$ 4,630,000</u>	<u>\$ 1,402,162</u>	<u>\$ 6,032,162</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

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

<u>Series 2014 Refunding</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 590,000	\$ 135,375	\$ 725,375
2021	615,000	120,250	735,250
2022	640,000	101,425	741,425
2023	675,000	81,700	756,700
2024	705,000	59,237	764,237
2025	735,000	34,038	769,038
2026	605,000	10,588	615,588
TOTALS	<u>\$ 4,565,000</u>	<u>\$ 542,613</u>	<u>\$ 5,107,613</u>

<u>Series 2016 Refunding</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2020	\$ 395,000	\$ 84,650	\$ 479,650
2021	410,000	74,547	484,547
2022	425,000	64,068	489,068
2023	435,000	53,274	488,274
2024	450,000	42,168	492,168
2025	470,000	30,622	500,622
2026	485,000	18,637	503,637
2027	500,000	6,275	506,275
TOTALS	<u>\$ 3,570,000</u>	<u>\$ 374,241</u>	<u>\$ 3,944,241</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2016</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 375,000	\$ 191,375	\$ 566,375
2021	390,000	183,875	573,875
2022	405,000	176,075	581,075
2023	415,000	167,975	582,975
2024	430,000	159,675	589,675
2025	445,000	151,075	596,075
2026	460,000	142,175	602,175
2027	480,000	132,975	612,975
2028	495,000	123,375	618,375
2029	515,000	112,237	627,237
2030	530,000	100,650	630,650
2031	550,000	88,725	638,725
2032	570,000	75,663	645,663
2033	590,000	62,125	652,125
2034	610,000	47,375	657,375
2035	630,000	32,125	662,125
2036	655,000	16,375	671,375
TOTALS	<u>\$ 8,545,000</u>	<u>\$ 1,963,850</u>	<u>\$ 10,508,850</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2017 Refunding</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 45,000	\$ 125,236	\$ 170,236
2021	45,000	124,057	169,057
2022	500,000	122,878	622,878
2023	525,000	109,778	634,778
2024	545,000	96,023	641,023
2025	570,000	81,744	651,744
2026	600,000	66,810	666,810
2027	625,000	51,090	676,090
2028	650,000	34,715	684,715
2029	675,000	17,685	692,685
TOTALS	<u>\$ 4,780,000</u>	<u>\$ 830,016</u>	<u>\$ 5,610,016</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2017</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 470,000	\$ 263,155	\$ 733,155
2021	435,000	253,755	688,755
2022	395,000	245,055	640,055
2023	375,000	233,206	608,206
2024	345,000	221,955	566,955
2025	305,000	211,605	516,605
2026	455,000	202,455	657,455
2027	470,000	188,805	658,805
2028	485,000	174,705	659,705
2029	500,000	160,155	660,155
2030	520,000	145,155	665,155
2031	535,000	129,555	664,555
2032	550,000	113,505	663,505
2033	570,000	97,005	667,005
2034	590,000	79,905	669,905
2035	610,000	61,615	671,615
2036	625,000	42,400	667,400
2037	650,000	21,775	671,775
TOTALS	<u>\$ 8,885,000</u>	<u>\$ 2,845,766</u>	<u>\$ 11,730,766</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2019

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

Due During Fiscal Years Ending September 30	Annual Requirements for All Series		
	Total Principal Due	Total Interest Due	Total
2020	\$ 3,225,000	\$ 1,360,269	\$ 4,585,269
2021	3,320,000	1,268,926	4,588,926
2022	3,425,000	1,170,517	4,595,517
2023	3,530,000	1,069,076	4,599,076
2024	3,635,000	961,764	4,596,764
2025	3,750,000	847,734	4,597,734
2026	3,460,000	741,681	4,201,681
2027	2,975,000	649,523	3,624,523
2028	2,580,000	569,881	3,149,881
2029	2,695,000	490,827	3,185,827
2030	2,100,000	407,828	2,507,828
2031	2,195,000	338,163	2,533,163
2032	1,810,000	264,505	2,074,505
2033	1,885,000	205,592	2,090,592
2034	1,630,000	143,405	1,773,405
2035	1,240,000	93,740	1,333,740
2036	1,280,000	58,775	1,338,775
2037	650,000	21,775	671,775
TOTALS	<u>\$ 45,385,000</u>	<u>\$ 10,663,981</u>	<u>\$ 56,048,981</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series:	2009	2010 Ref.	2011
Interest Rate:	4.00%	4.00% to 4.25%	4.00%
Dates Interest Payable:	March 1/ September 1	April 1/ October 1	March 1/ September 1
Maturity Dates:	September 1, 2020/2021	April 1, 2020/2025	September 1, 2020/2031
Bonds Outstanding at Beginning of Current Year	\$ 1,200,000	\$ 2,510,000	\$ 4,360,000
Less Retirements	<u>(375,000)</u>	<u>(310,000)</u>	<u>(240,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 825,000</u>	<u>\$ 2,200,000</u>	<u>\$ 4,120,000</u>
Current Year Interest Paid:	<u>\$ 48,000</u>	<u>\$ 95,826</u>	<u>\$ 172,000</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2009 (\$8,300,000)
- (2) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2010 (\$4,345,000)
- (3) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2011 (\$5,700,000)

Paying Agent/Registrar

(1) (2) (3) Wells Fargo Bank, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds*</u>
Amount Authorized by Voters:	\$ 118,500,000	\$ 0	\$ 0
Amount Issued:	63,930,000		
Remaining to be Issued:	54,570,000		

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(4)</u>	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>
Bond Series:	2013	2014	2014 Ref.	2016 Ref.
Interest Rate:	2.75% to 4.75%	2.00% to 3.75%	2.00% to 3.50%	2.51%
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	April 1/ October 1	April 1/ October 1
Maturity Dates:	September 1, 2020/2033	September 1, 2020/2034	April 1, 2020/2026	April 1, 2020/2027
Bonds Outstanding at Beginning of Current Year	\$ 3,425,000	\$ 4,830,000	\$ 5,140,000	\$ 3,950,000
Less Retirements	<u>(160,000)</u>	<u>(200,000)</u>	<u>(575,000)</u>	<u>(380,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,265,000</u>	<u>\$ 4,630,000</u>	<u>\$ 4,565,000</u>	<u>\$ 3,570,000</u>
Current Year Interest Paid:	<u>\$ 138,941</u>	<u>\$ 148,625</u>	<u>\$ 147,025</u>	<u>\$ 94,376</u>

Bond Descriptions and Original Amount of Issue

- (4) Harris County Municipal Utility District No. 1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2013 (\$4,110,000)
- (5) Harris County Municipal Utility District No. 1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2014 (\$5,370,000)
- (6) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2014 (\$7,025,000)
- (7) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2016 (\$4,010,000)

Paying Agent/Registrar

- (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (5) (6) Amegy Bank, N.A., Houston, Texas
- (7) Branch Banking and Trust Company, Charlotte, North Carolina

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(8)</u>	<u>(9)</u>	<u>(10)</u>	<u>Totals</u>
Bond Series:	2016	2017 Ref.	2017	
Interest Rate:	2.00% to 2.50%	2.62%	2.00% to 3.35%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates:	September 1, 2020/2036	September 1, 2020/2029	September 1, 2020/2037	
Bonds Outstanding at Beginning of Current Year	\$ 8,910,000	\$ 4,825,000	\$ 9,370,000	\$ 48,520,000
Less Retirements	<u>(365,000)</u>	<u>(45,000)</u>	<u>(485,000)</u>	<u>(3,135,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 8,545,000</u>	<u>\$ 4,780,000</u>	<u>\$ 8,885,000</u>	<u>\$ 45,385,000</u>
Current Year Interest Paid:	<u>\$ 198,675</u>	<u>\$ 126,415</u>	<u>\$ 272,854</u>	<u>\$ 1,442,737</u>

Bond Descriptions and Original Amount of Issue

(8) Harris County Municipal Utility District No. 1 Unlimited Tax and Revenue Bonds, Series 2016 (\$9,575,000)

(9) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2017 (\$4,870,000)

(10) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2017 (\$9,690,000)

Paying Agent/Registrar

(8) (9) (10) Amegy Bank, N.A., Houston, Texas

Net Debt Service Fund deposits balances as of September 30, 2019:	\$4,649,158
Average annual debt service payment for remaining term of all debt:	3,113,832

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 1,074,730	\$ 1,329,371	\$ 1,553,447	\$ 1,304,721	\$ 860,638	22.9 %	27.9 %	31.2 %	31.7 %	24.3 %
Water service	858,006	896,425	874,120	853,504	807,171	18.3	18.8	17.6	20.7	22.8
Sewer service	990,229	965,369	943,453	932,179	906,932	21.1	20.2	19.0	22.6	25.6
Surface water fees	1,272,093	1,206,590	990,954	791,764	612,178	27.1	25.3	19.9	19.2	17.3
Penalty	53,887	58,901	48,930	51,134	20,610	1.2	1.2	1.0	1.2	0.6
Tap connection and inspection fees	167,287	127,561	402,324	94,525	231,496	3.6	2.7	8.1	2.3	6.5
Sales and Use Taxes	84,715	82,621	76,672	55,954	56,513	1.8	1.7	1.5	1.4	1.6
Interest on deposits and investments	134,955	74,106	35,214	14,222	3,181	2.9	1.6	0.7	0.3	0.1
Other revenues	49,523	30,036	47,500	24,733	42,960	1.1	0.6	1.0	0.6	1.2
TOTAL REVENUES	4,685,425	4,770,980	4,972,614	4,122,736	3,541,679	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Service operations:										
Professional fees	198,628	199,253	200,979	198,665	153,285	4.2	4.2	4.0	4.8	4.3
Contracted services	255,425	236,291	231,370	230,121	203,775	5.5	5.0	4.7	5.6	5.8
Utilities	212,621	219,837	209,843	219,909	207,760	4.5	4.6	4.2	5.3	5.9
Surface water fees	1,324,300	1,182,064	1,050,052	818,627	624,962	28.3	24.8	21.2	19.9	17.6
Repairs and maintenance	564,123	815,048	438,037	395,784	285,130	12.0	17.1	8.8	9.6	8.1
Other operating expenditures	207,899	208,349	184,833	184,462	169,897	4.4	4.4	3.7	4.5	4.8
Security service	276,660	278,217	270,373	203,269	208,072	5.9	5.8	5.4	4.9	5.9
Garbage disposal	514,591	497,947	497,884	514,031	482,287	11.0	10.4	10.0	12.5	13.6
Administrative expenditures	169,117	162,968	175,240	151,139	160,797	3.6	3.4	3.5	3.7	4.5
Capital outlay	461,925	2,096,538	328,035	108,278	120,853	9.9	43.9	6.6	2.6	3.4
TOTAL EXPENDITURES	4,185,289	5,896,512	3,586,646	3,024,285	2,616,818	89.3	123.6	72.1	73.4	73.9
EXCESS REVENUES (EXPENDITURES)	\$ 500,136	\$(1,125,532)	\$ 1,385,968	\$ 1,098,451	\$ 924,861	10.7 %	(23.6) %	27.9 %	26.6 %	26.1 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,980	2,876	2,761	2,711	2,615					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,917	2,826	2,716	2,666	2,595					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 4,446,145	\$ 4,321,842	\$ 3,866,029	\$ 3,795,098	\$ 3,572,487	96.4 %	97.3 %	98.4 %	99.3 %	99.2 %
Penalty, interest and other	12,548	27,352	19,051	19,119	25,489	0.3	0.6	0.5	0.5	0.7
Accrued interest on bonds received at date of sale	0	10,084	0	3,175	4,428	0.0	0.2	0.0	0.1	0.1
Interest on deposits and investments	152,554	84,319	42,950	3,252	1,598	3.3	1.9	1.1	0.1	0.0
TOTAL REVENUES	<u>4,611,247</u>	<u>4,443,597</u>	<u>3,928,030</u>	<u>3,820,644</u>	<u>3,604,002</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Contracted services	2,928	3,736	2,243	2,645	4,004	0.1	0.1	0.1	0.1	0.1
Other expenditures	0	0	78	0	7,602	0.0	0.0	0.0	0.0	0.2
Debt service:										
Principal retirement	3,135,000	2,855,000	2,355,000	2,220,000	2,120,000	67.9	64.3	60.0	58.1	58.9
Refunding contribution	0	0	87,263	0	0	0.0	0.0	2.2	0.0	0.0
Interest and fees	<u>1,447,202</u>	<u>1,458,458</u>	<u>1,321,540</u>	<u>1,393,889</u>	<u>1,420,139</u>	<u>31.4</u>	<u>32.8</u>	<u>33.6</u>	<u>36.5</u>	<u>39.4</u>
TOTAL EXPENDITURES	<u>4,585,130</u>	<u>4,317,194</u>	<u>3,766,124</u>	<u>3,616,534</u>	<u>3,551,745</u>	<u>99.4</u>	<u>97.2</u>	<u>95.9</u>	<u>94.7</u>	<u>98.6</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 26,117</u>	<u>\$ 126,403</u>	<u>\$ 161,906</u>	<u>\$ 204,110</u>	<u>\$ 52,257</u>	<u>0.6 %</u>	<u>2.8 %</u>	<u>4.1 %</u>	<u>5.3 %</u>	<u>1.4 %</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2019

Complete District Mailing Address: Harris County Municipal Utility District No. 1
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, Texas 77019

District Business Telephone No.: 713-652-6500

Submission date of the most recent District Registration Form: October 16, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Doug Caldwell, Jr. c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/05/18- 5/07/22	\$ 6,300	\$ 2,899	President
Craig C. Young c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/16- 5/02/20	1,800	60	Vice President
James E. Roberson c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/05/18- 5/07/22	3,750	2,456	Secretary
Danny Brown c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Appointed 5/10/16- 5/02/20	3,450	1,771	Director
Mike Brazzell c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Appointed 5/08/18- 5/07/22	2,100	856	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

SEPTEMBER 30, 2019

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	6/07/72	\$ 127,981	Attorney
Municipal Accounts & Consulting, L.P. 1281 Brittmoore Road Houston, Texas 77043	12/31/15	41,681	Bookkeeper
Mark Burton, Ghia Lewis 1281 Brittmoore Road Houston, Texas 77043	12/31/15	0	Investment Officer
Hays Utility South Corporation P.O. Box 1209 Spring, Texas 77383	6/23/76	697,845	Operator
Van De Wiele & Vogler, Inc. 2925 Briarpark, Suite 275 Houston, Texas 77042	4/09/02	262,730	Engineer
Harris County Tax Office P.O. Box 4663 Houston, Texas 77210	9/01/12	0	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	41,163	Central Appraisal District
R. W. Baird & Co. 1331 Lamar, Suite 1360 Houston, Texas 77010	3/10/15	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	10/14/08	10,950	Independent Auditor

See accompanying independent auditor's 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:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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