

**OFFICIAL STATEMENT DATED OCTOBER 19, 2020**

*THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE EFFECT THAT, UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER, AND SUBJECT TO THE MATTERS DESCRIBED IN "LEGAL MATTERS—TAX EXEMPTION" HEREIN, INTEREST ON THE BONDS FOR FEDERAL INCOME TAX PURPOSES IS EXCLUDABLE FROM GROSS INCOME OF THE OWNERS THEREOF AND WILL NOT BE INCLUDED IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS THEREOF.*

*The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "LEGAL MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."*

**NEW ISSUE-Book-Entry Only**

Insured Ratings (AGM): S&P "AA" (stable outlook)  
 Moody's "A2" (stable outlook)  
 Underlying Rating: Moody's "A3"  
 See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

**\$2,235,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 396**  
*(A political subdivision of the State of Texas located within Harris County)*

**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2020**

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 396 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

**Dated Date: November 1, 2020**

**Due: May 1, as shown below**

Interest on the Bonds will accrue from November 1, 2020, and will be payable on May 1 and November 1 of each year commencing May 1, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds, 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 owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Paying Agent/Registrar."



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 ASSURED GUARANTY MUNICIPAL CORP. See "MUNICIPAL BOND INSURANCE" herein.

**MATURITY SCHEDULE**

Principal Amount	Maturity (May 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)	Principal Amount	Maturity (May 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(c)
\$ 175,000	2022	41421X KC5	3.00 %	0.46 %	\$ 170,000	2027 (a)	41421X KH4	2.00 %	1.22 %
175,000	2023	41421X KD3	3.00	0.57	****	****	****	****	****
175,000	2024	41421X KE1	3.00	0.71	310,000	2030 (a)	41421X KL5	2.00	1.64
175,000	2025	41421X KF8	3.00	0.88	305,000	2031 (a)	41421X KM3	2.00	1.78
170,000	2026 (a)	41421X KG6	2.00	1.06	110,000	2032 (a)	41421X KN1	2.00	1.86

\$470,000 Term Bonds due May 1, 2029 (a), 41421X KK7 (b), 2.00% Interest Rate, 1.49% Yield (c)

- (a) Bonds maturing on or after May 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 May 1, 2025, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.

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

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Bond Counsel. Certain legal matters will be reviewed by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds through DTC is expected on or about November 18, 2020.

**SAMCO CAPITAL**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Norton Rose Fulbright US LLP, Bond Counsel, 1301 McKinney, Suite 5100, Houston, Texas, 77010, for further information.

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

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

## **SALE AND DISTRIBUTION OF THE BONDS**

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$2,287,330.59 (representing the par amount of the Bonds of \$2,235,000.00, plus a premium on the Bonds of \$77,809.45, less an Underwriter’s discount of \$25,478.86) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

### **Prices and Marketability**

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

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

### **Securities Laws**

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

## OFFICIAL STATEMENT SUMMARY

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

### INFECTIOUS DISEASE OUTLOOK (COVID-19)

*General...*

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

*Impact...*

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential in the Houston area and could reduce or negatively affect property values and commercial activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may affect the ability of taxpayers to timely pay their tax bills or 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 the Pandemic 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 or its ratings (see “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE”). The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

### RECENT EXTREME WEATHER EVENTS; HURRICANE HARVEY

*General...*

The greater Houston area, including Harris County, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

*Impact on the District...*

According to Inframark, LLC (the “Operator”), the District’s facilities did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive any reports of homes within the District that experienced flooding or other material damage as a result of Hurricane Harvey.

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

## THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality ("TCEQ") on July 3, 2003, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 486 acres of land. See "THE DISTRICT."
<i>Location...</i>	The District is located approximately 30 miles northwest of the central downtown business district of the City of Houston in Harris County, Texas. Access to the District from the City of Houston is provided by U.S. Highway 290 to Mason Road or Fairfield Place Drive. The District lies wholly within the boundaries of Cypress-Fairbanks Independent School District and is within the extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT."
<i>Fairfield...</i>	Fairfield is a 3,200 acre mixed-use "master planned community," of which approximately 486 acres comprise the District. Fairfield has been developed as a single-family residential development, complemented by commercial, institutional, and amenity improvements, including greenbelts and open space. Fairfield is comprised of five municipal utility districts: the District, Harris County Municipal Utility District No. 354 ("MUD 354"), Harris County Municipal Utility District No. 322 ("MUD 322"), Harris County Municipal Utility District No. 358 ("MUD 358") and Harris County Municipal Utility District No. 397 ("MUD 397").
<i>Status of Development...</i>	Utility construction and paving have been completed in the single-family neighborhoods of Fairfield Village North, Sections One through Eighteen (892 traditional single-family lots and 173 patio home lots on approximately 351 acres). As of October 1, 2020, homes had been completed on all lots within the District. Additionally, an elementary school has been constructed on approximately 15 acres in the District. Approximately 120 acres are undevelopable land contained in rights of way, detention/amenity facilities, and utility sites. All developable land in the District has been served with underground utilities. The average home value in the District for 2020 is \$375,131. See "THE DISTRICT—Status of Development" and "—Land Use."
<i>Water Supply and Wastewater Treatment...</i>	Central water supply and wastewater treatment and stormwater detention for the development within the District's boundaries is provided by facilities owned and operated by MUD 358, a neighboring utility district, in its capacity as the regional provider of such services (the "Regional District"). Internal water distribution, wastewater collection lines and storm drainage facilities are provided by the District. See "THE SYSTEM."
<i>Payment Record...</i>	The District has previously issued \$23,745,000 in principal amount of unlimited tax bonds in seven series and \$13,195,000 in principal amount of unlimited tax refunding bonds in three series, \$14,560,000 of which collectively remains outstanding (the "Outstanding Bonds") as of the date hereof. The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. See "PLAN OF FINANCING—Outstanding Bonds."

## THE BONDS

<i>Description...</i>	Harris County Municipal Utility District No. 396 Unlimited Tax Refunding Bonds, Series 2020, in the aggregate principal amount of \$2,235,000. Interest accrues from November 1, 2020, and is payable May 1, 2021 and each November 1 and May 1 thereafter, until the earlier of stated maturity or redemption. The Bonds mature serially on May 1 in each year 2022 through 2027, both inclusive, and 2030 through 2032, both inclusive, and as term bonds on May 1, 2029 (the “Term Bonds”). The Bonds will be issued pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District, in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. See “THE BONDS.”
<i>Book-Entry-Only System...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after May 1, 2026 are subject to redemption at the option of the District prior to their maturity dates on May 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds along with other lawfully available funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$2,800,000 of the Outstanding Bonds in order to achieve net savings in the District's annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$11,760,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”).
<i>Authority for Issuance...</i>	The Bonds are the fourth series of bonds issued out of an aggregate of \$47,100,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of refunding outstanding debt of the District. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Chapter 1207 of the Texas Government Code, Chapters 49 and 54 of the Texas Water Code, City of Houston Ordinance No. 97-416, Article XVI, Section 59 of the Texas Constitution, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable solely from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, (“S&P”) and Moody's Investors Service, Inc. (Moody's) has assigned municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody's has also assigned an underlying rating of “A3” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody's. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2020 is not reasonably expected to exceed \$10,000,000. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions.”
<i>Bond Counsel...</i>	Norton Rose Fulbright US LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Minneapolis Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

### **INVESTMENT CONSIDERATIONS**

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



**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2020 Taxable Assessed Valuation.....	\$382,695,828	(a)
Gross Direct Debt Outstanding .....	\$13,995,000	(b)
Estimated Overlapping Debt .....	<u>23,907,904</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$37,902,904	
Ratio of Gross Direct Debt to:		
2020 Taxable Assessed Valuation .....	3.66%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to		
2020 Taxable Assessed Valuation.....	9.90%	
Operating Funds Available as of October 14, 2020 .....	\$5,672,164	(d)
Debt Service Funds Available as of October 14, 2020.....	\$1,151,185	(e)
2020 Debt Service Tax Rate.....	\$0.36	
2020 Maintenance Tax Rate.....	<u>0.20</u>	
2020 Total Tax Rate.....	\$0.56	
Average Annual Debt Service Requirement (2021-2036).....	\$1,063,488	(f)
Maximum Annual Debt Service Requirement (2022).....	\$1,361,619	(f)
Tax Rates Required to Pay Average Annual Debt Service (2021-2036) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation .....	\$0.30	(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation .....	\$0.38	(g)
Status of Development as of September 1, 2020 (h):		
Single Family Homes Completed (1,065 occupied).....	1,065	(h)
Estimated Population .....	3,728	(i)

- (a) The Harris County Appraisal District (the "Appraisal District") has certified \$361,170,483 of taxable value and an additional \$21,525,345 of taxable value remains uncertified and subject to downward adjustment prior to certification. The uncertified amount represents the landowners' opinion of the value. The 2020 Taxable Assessed Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."
- (d) The District plans to use \$450,000 toward the purpose of the Bonds. See "PLAN OF FINANCING—Refunded Bonds."
- (e) The District plans to use \$165,000 of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.
- (f) See "PLAN OF FINANCING—Debt Service Requirements."
- (g) See "TAX DATA—Tax Adequacy Debt Service."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

**\$2,235,000**

### **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 396** *(A political subdivision of the State of Texas located within Harris County)*

#### **UNLIMITED TAX REFUNDING BONDS SERIES 2020**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 396 (the "District") of its \$2,235,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

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

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Norton Rose Fulbright US LLP, the District's General Counsel and Bond Counsel, 1301 McKinney, Suite 5100, Houston, Texas 77010-3095.

### **PLAN OF FINANCING**

#### **Purpose**

At an election held on November 2, 2003, voters of the District authorized the issuance of \$47,100,000 of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District and \$47,100,000 of unlimited tax bonds for the purpose of refunding outstanding bonds. The District has issued \$23,745,000 principal amount of unlimited tax bonds and \$13,195,000 principal amount of unlimited tax refunding bonds. The District currently has \$14,560,000 principal amount of its bonds outstanding (the "Outstanding Bonds").

The proceeds of the Bonds and other lawfully available funds of the District are being used to refund portions of the District's Unlimited Tax Bonds, Series 2012 and Unlimited Tax Refunding Bonds, Series 2012A (see "Refunded Bonds" herein) totaling \$2,800,000 in principal amount in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds." A total of \$11,760,000 in principal amount of the District's Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds"). See "Outstanding Bonds" herein.

## Outstanding Bonds

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

Series	Original Principal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2006	\$ 2,300,000	\$ -	\$ -	\$ -
2007	4,000,000	-	-	-
2008	4,060,000	-	-	-
2010	2,300,000	-	-	-
2011	4,500,000	140,000	-	140,000
2012	4,545,000	2,200,000	2,200,000	-
2012A (a)	2,020,000	600,000	600,000	-
2014	2,040,000	1,540,000	-	1,540,000
2015(a)	5,045,000	4,075,000	-	4,075,000
2019 (a)	6,130,000	6,005,000	-	6,005,000
Total	\$ 36,940,000	\$ 14,560,000	\$ 2,800,000	\$ 11,760,000
The Bonds				<u>2,235,000</u>
The Bonds and Remaining Outstanding Bonds				\$ 13,995,000

(a) Unlimited Tax Refunding Bonds.

**Refunded Bonds**

Proceeds of the Bonds and la fully available funds of the district will be applied to currently refund the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

<u>Maturity Date</u>	<u>Series 2012</u>	<u>Series 2012A</u>
2021	\$ 200,000 (a)	\$ -
2022	200,000 (b)	-
2023	200,000 (b)	-
2024	200,000 (c)	-
2025	200,000 (c)	-
2026	200,000 (d)	-
2027	200,000 (d)	-
2028	200,000 (e)	-
2029	200,000 (e)	140,000 (g)
2030	200,000 (f)	150,000 (g)
2031	200,000 (f)	150,000 (h)
2032	-	160,000 (h)
	<u>\$ 2,200,000</u>	<u>\$ 600,000</u>
Redemption Date:	November 24, 2020	November 24, 2020

The Refunded Bonds will be redeemed on the date shown above, the earliest redemption date allowable under the orders authorizing issuance of the Refunded Bonds

- (a) Represents the remaining portion of a term bond in the total principal amount of \$200,000, scheduled to mature on May 1, 2021.
- (b) Represents a term bond in the total principal amount of \$400,000, scheduled to mature on May 1, 2023.
- (c) Represents a term bond in the total principal amount of \$400,000, scheduled to mature on May 1, 2025.
- (d) Represents a term bond in the total principal amount of \$400,000, scheduled to mature on May 1, 2027.
- (e) Represents a term bond in the total principal amount of \$400,000, scheduled to mature on May 1, 2029.
- (f) Represents a term bond in the total principal amount of \$400,000, scheduled to mature on May 1, 2031.
- (g) Represents a term bond in the total principal amount of \$290,000, scheduled to mature on May 1, 2030
- (h) Represents a term bond in the total principal amount of \$310,000, scheduled to mature on May 1, 2032.

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, and lawfully available funds of the district will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds.....	\$2,235,000.00
Plus: Premium on the Bonds.....	77,809.45
Plus: Transfer from Debt Service Fund .....	165,000.00
Plus: Transfer from Operating Fund.....	450,000.00
Total Sources of Funds.....	<u>\$2,927,809.45</u>
Uses of Funds:	
Deposit to Deposit Account.....	\$2,805,526.49
Issuance Expenses and Underwriters' Discount (a).....	122,282.96
Total Uses of Funds .....	<u>\$2,927,809.45</u>

(a) Includes municipal bond insurance premium.

**Defeasance of Refunded Bonds**

The Refunded Bonds, and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent for the Refunded Bonds (the “Prior Paying Agent”).

The Bond Order provides that from the proceeds of the sale of the Bonds and other lawfully available funds of the District, the District will deposit with the Prior Paying Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Prior Paying Agent in a segregated account (the “Deposit Account”). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Prior Paying Agent, the Underwriter, and the Financial Advisor that the monies held in the Deposit Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By the deposit of the cash with the Prior Paying Agent and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited in the Deposit Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

**Debt Service Requirements**

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$2,800,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Debt Service	Less:		Plus: Debt Service on the Bonds			Debt Service Requirements
		Refunded Bonds Debt Service		Principal	Interest	Total	
2021	\$ 1,430,118.75	\$ 284,000.00	\$ -	\$ 51,700.00	\$ 51,700.00	\$ 1,197,818.75	
2022	1,416,043.75	278,500.00	175,000	49,075.00	224,075.00	1,361,618.75	
2023	1,403,793.75	272,500.00	175,000	43,825.00	218,825.00	1,350,118.75	
2024	1,394,018.75	266,500.00	175,000	38,575.00	213,575.00	1,341,093.75	
2025	1,385,293.75	260,500.00	175,000	33,325.00	208,325.00	1,333,118.75	
2026	1,377,668.75	254,500.00	170,000	29,000.00	199,000.00	1,322,168.75	
2027	1,364,368.75	248,500.00	170,000	25,600.00	195,600.00	1,311,468.75	
2028	1,369,918.75	242,375.00	165,000	22,250.00	187,250.00	1,314,793.75	
2029	1,127,593.75	373,850.00	305,000	17,550.00	322,550.00	1,076,293.75	
2030	1,112,484.38	372,637.50	310,000	11,400.00	321,400.00	1,061,246.88	
2031	1,096,381.25	361,012.50	305,000	5,250.00	310,250.00	1,045,618.75	
2032	883,115.63	162,600.00	110,000	1,100.00	111,100.00	831,615.63	
2033	710,531.25	-	-	-	-	710,531.25	
2034	876,725.00	-	-	-	-	876,725.00	
2035	810,265.63	-	-	-	-	810,265.63	
2036	71,312.50	-	-	-	-	71,312.50	
<b>Total</b>	<b>\$ 17,829,634.39</b>	<b>\$ 3,377,475.00</b>	<b>\$ 2,235,000</b>	<b>\$ 328,650.00</b>	<b>\$ 2,563,650.00</b>	<b>\$ 17,015,809.39</b>	

Maximum Annual Debt Service Requirement (2022).....\$1,361,619  
 Average Annual Debt Service Requirements (2021-2036).....\$1,063,488

## 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.

### **Description**

The Bonds are dated November 1, 2020, and mature on May 1 in each of the years and in the amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 1 and November 1, commencing May 1, 2021). The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the partnership nominee of The Depository Trust Company (“DTC”), pursuant to the Book- Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”

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

The record date for payment of 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. If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order, without additional interest and with the same force and effect as if made on the specified date for such payment.

### **Authority for Issuance**

At an election held within the District on November 2, 2003, voters of the District authorized the issuance of \$47,100,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. The Bonds constitute the fourth issuance of refunding bonds pursuant to such authorization. See “Issuance of Additional Debt” herein.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

### **Paying Agent/Registrar**

The Board has selected The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”) as the initial Paying Agent and Registrar for the Bonds. The initial designated payment office for the Bonds is located in Dallas, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$10,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

### **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered in the name of Cede & Co. and will not be transferred. See “BOOK-ENTRY-ONLY SYSTEM.”

**Redemption Provisions**

*Mandatory Redemption:* The Bonds maturing on May 1, 2029 (the “Term Bonds”), shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Redemption Date”), on May 1 in each of the years and in the principal amounts set forth in following schedule. The Term Bonds to be redeemed shall be selected by random method from and among the Term Bonds of such maturity then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased or canceled by the District or which have been earlier redeemed.

**\$470,000 Term Bonds**  
**Due May 1, 2029**

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
2028	\$ 165,000
2029 (maturity)	305,000

*Optional Redemption:* The District reserves the right, at its option, to redeem the Bonds maturing on and after May 1, 2026, prior to their scheduled maturities, in whole or, from time to time in part, in integral multiples of \$5,000 on May 1, 2025, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. If less than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent/Registrar shall select the particular Bonds to be redeemed by such random method as it deems fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book- entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to DTC while the Bonds are in Book-Entry-Only form and thereafter by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Bond Register. Notice of redemption having been given, Bonds to be redeemed will become due and payable on the redemption date, and on and after such date (unless the District shall default in payment of the redemption price), such Bonds shall cease to pay interest.

**Source of Payment**

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against taxable property within the District.

*Tax Pledge:* The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax, without legal limit as to rate or amount, and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, with full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide for the payment of principal when due or the redemption price at any earlier required redemption date, and to pay the expenses of assessing and collecting such a tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in the Debt Service Fund for the Bonds and other tax-supported debt of the District. This account may be used solely to pay the principal of and interest on the Bonds and other tax-supported debt of the District.

*Annexation:* Under Texas law, a city is authorized to annex property within its extraterritorial jurisdiction and to abolish the municipal utility district in which such property is located, subject to compliance with various requirements of the Texas Local Government Code. Effective December 1, 2017, a city in a county with a population of 500,000 or more may not annex land unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. If a city and a municipal utility district existing within its extraterritorial jurisdiction have entered into a strategic partnership agreement, however, the election and petition process specified above do not apply during the term of the agreement. The agreement may provide for a full purpose annexation or a limited purpose annexation.

The District is located within Harris County, a county with a population of 500,000 or more, and within the extraterritorial jurisdiction of the City of Houston (the “City”). If the City were to successfully meet the requirements set forth in the Texas Local Government Code and annex the property within the District, the City would assume the District’s assets and obligations (including the Bonds) and dissolve the District. The commencement of annexation proceedings 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.

Consolidation: A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Defeasance: The Bond Order provides that any Bond shall be deemed paid and shall no longer be considered a Bond within the meaning of the Bond Order when payment of principal of and interest on such Bond to its stated maturity, or (if notice of redemption shall have been given, irrevocably provided for or duly waived) to the redemption date, shall have been made or shall have been provided for under the provisions of the Bond Order. Such payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment, (2) direct or indirect obligations of the United States of America, and (3) certain obligations issued by or on behalf of any state or political subdivision or municipality thereof and rated “AAA” or its equivalent by a nationally recognized investment rating firm.

Neither the obligations described in clause (2) above nor the obligations described in clause (3) above may be subject to redemption. Any such obligations must be certified by an independent verification firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make the payment to be provided for on the Bonds.

Strategic Partnership: The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with several other districts in its extraterritorial jurisdiction including Harris County Municipal Utility District No. 397, Harris County Municipal Utility District No. 322 and Harris County Municipal Utility District No. 358 (all neighboring Fairfield districts), none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

### **Funds and Accounts**

The Bond Order confirms establishment and maintenance by the District of a Bond Fund (as further described in the Bond Order).

The Bond Fund is the District's interest and sinking fund. The Bond Order requires that the District credit to the Bond Fund (i) all net receipts of District ad valorem taxes (and penalty and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, the Remaining Outstanding Bonds, and any other tax-supported obligations of the District, (ii) accrued interest paid by the Underwriter, (iii) all earnings from investment of the Bond Fund and (iv) any other funds of the District deposited to the Bond Fund. The Bond Order requires that the Bond Fund be applied solely to pay the principal or redemption price of, interest on, and the Paying Agent fees with respect to the Bonds, the Remaining Outstanding Bonds, and any other tax-supported obligations of the District when due.

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

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

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

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

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

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



## **Issuance of Additional Debt**

The voters of the District have authorized the District to issue up to \$47,100,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, leasing, operating, repairing, improving or extending a waterworks system, a sanitary sewer system and a storm sewer system and expenses incidental thereto, and \$47,100,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. The District currently has \$23,355,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of purchasing, constructing, acquiring, leasing, operating, repairing, improving or extending a waterworks system, a sanitary sewer system and a storm sewer system and expenses incidental thereto, and, after the issuance of the Bonds, the District will have \$46,350,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds.

Additional unlimited tax or unlimited tax and revenue bonds may be authorized by the District's voters in the future, including bonds to construct or acquire parks and recreational facilities, fire-fighting facilities and after obtaining road powers from the TCEQ, roads. The Board is further empowered to issue revenue bonds, to borrow money for any lawful corporate purpose, and to issue bond anticipation or tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds that may be issued by the District. Any additional unlimited tax bonds issued by the District will be on a parity with the Bonds and may dilute the security for the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

## **Additional Covenants**

In the Bond Order, the District has additionally covenanted that it will (1) maintain insurance on its facilities of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled, (2) keep accurate records and accounts and engage an independent certified public accountant to audit its financial statements at the close of each fiscal year, such audit to be in accordance with applicable law, rules and regulations, and open to inspection in the office of the District during normal office hours, (3) maintain its facilities in good condition and repair, ordinary wear and tear and obsolescence excepted, and operate its facilities in an efficient manner and at a reasonable cost and (4) secure the Bond Fund in the manner and to the fullest extent required by law for the security of District funds.

## **Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States of arbitrage profits from the investment of proceeds, and the reporting of certain information to the United States Treasury.

## **Amendments to the Bond Order**

The District may, without the consent of or notice to any Registered Owner, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the Registered Owners of all of the Bonds affected, no such amendment, addition or rescission may (1) change the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price therefore or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond is payable or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

## **Remedies in Event of Default**

The Bond Order provides that, in addition to all other rights and remedies of any Registered Owners provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order including payment when due of the principal of and interest on the Bonds, any Registered Owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

The Bond Order provides no additional remedies to a Registered Owner. Specifically, the Bond Order does not provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year-to-year by the Registered Owners and may prove time consuming, costly and difficult to enforce.

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. The Bonds are not secured by an interest in any improvements or any other property of the District. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Registered Owners may be delayed, reduced or otherwise affected or limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of a political subdivision or by a state statute reasonably required to attain an important public purpose. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

## **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

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

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

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

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

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

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

## **FAIRFIELD**

Fairfield is a 3,200 acre mixed-use "master planned community," of which approximately 486 acres comprise the District. Fairfield is comprised of five municipal utility districts: the District, Harris County Municipal Utility District No. 354 ("MUD 354"), Harris County Municipal Utility District No. 322 ("MUD 322"), Harris County Municipal Utility District No. 358 ("MUD 358") and Harris County Municipal Utility District No. 397 ("MUD 397"). A portion of Fairfield is also within in the boundaries of Harris County Water Control and Improvement District No. 155 ("WCID 155"), which provides major drainage channels with Fairfield south to Highway 290. As of September 1, 2020, Fairfield contained approximately 5,582 homes completed as well as multi-family and commercial improvements and amenities.

The neighborhoods in Fairfield are served by six neighborhood parks, five of which have pools, including a spray park and dog park in the District. In addition, there is a Central Recreational Center for the residents of Fairfield which includes a pool and tennis courts, a weight room, pool, social areas and soccer and baseball fields. A greenbelt system currently running throughout portions of Fairfield provides off-street transportation to pedestrians and bicyclists.

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the TCEQ dated July 3, 2003. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may provide solid waste disposal and collection and is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts and may issue bonds for fire-fighting facilities, after approval by the TCEQ and the voters of the District. The District is also authorized to provide security services and to construct and acquire park and recreational facilities and may issue bonds for park and recreational facilities after approval by the TCEQ and the voters of the District. The District may petition the TCEQ for the power to issue bonds to finance roads. If granted, the District may issue bonds to finance roads after approval by the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston that limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, certain park and recreational facilities, firefighting facilities, roads and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City of Houston. See "THE SYSTEM—General."

**Description and Location**

The District is comprised of approximately 486 acres of land located approximately 30 miles northwest of the central downtown business district of the City of Houston within Harris County, Texas. Access to the District is currently provided by U.S. Highway 290 to Mason Road or Fairfield Place Drive. U.S. Highway 290 connects to other major highways and thoroughfares and provides access from the District to major employment centers in the Harris County area. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District.

**Land Use**

The District includes approximately 351 developed acres of single-family residential development (892 traditional single-family lots and 173 patio home lots with utilities and paving), approximately 120 undevelopable acres (rights of way, detention/amenity facilities, and utility sites) and approximately 15 acres for an elementary school in the District. All developable land in the District has been served with underground utilities. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate	
<u>Single-Family Residential</u>	<u>Acres</u>	<u>Lots</u>
Fairfield Village North Sections One-Eighteen:	351	1,065
Future Development.....	0	--
Elementary School.....	15	--
Non-Developable (a).....	120	--
Subtotal.....	135	--
Totals.....	486	1,065

(a) Includes rights of way, detention/amenity facilities, and utility sites.

**Status of Development**

Single-Family Residential: Utility construction and paving have been completed in the single-family neighborhoods of Fairfield Village North, Sections One through Eighteen (892 traditional single-family lots and 173 patio home lots on approximately 351 acres). As of September 1, 2020, homes had been completed on all lots within the District (1,065 occupied homes). According to the Harris County Appraisal District, the average home value for 2020 is \$375,131. The estimated population in the District as of September 1, 2020 is 3,728 based upon 3.5 persons per occupied single-family residence.

**MANAGEMENT OF THE DISTRICT**

**Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. Four of the Board members reside within the District and one owns land in the District. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	Title	Term Expires
Aldru Todd Aaron	President	May 2022
Michael Brewer	Vice President	May 2022
Chelsea Florack	Secretary	May 2024
Tim Applewhite	Treasurer	May 2022
James Brown	Assistant Secretary	May 2024

## **District Consultants**

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

*Bond Counsel/Attorney:* The District has engaged Norton Rose Fulbright US LLP as general counsel to the District and as Bond Counsel in connection with the issuance of District bonds. The fees of Norton Rose Fulbright US LLP, as Bond Counsel, are contingent upon the sale and delivery of the Bonds.

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

*Auditor:* As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audited financial statements are filed with the TCEQ. The financial statements of the District as of December 31, 2019, and for the year then ended, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "Appendix A" for a copy of the District's December 31, 2019, financial statements.

*Engineer:* The District's consulting engineer for the design and construction of District facilities financed with bond proceeds is BGE, Inc.

*Tax Appraisal:* The Harris County Appraisal District (the "Appraisal District") has the responsibility of appraising taxable property within the District. See "TAXING PROCEDURES."

*Tax Assessor/Collector:* The District has contracted with Bob Leared Interests (the "Tax Assessor/Collector") to perform the tax collection function.

*Bookkeeper:* The District has contracted with Myrtle Cruz, Inc. (the "Bookkeeper") for bookkeeping services.

*Utility System Operator:* The operator of the District's internal water and wastewater system is Inframark, LLC.

## **THE SYSTEM**

### **General**

The District provides water supply and wastewater treatment to land within its boundaries by means of its own water distribution and wastewater collection lines and by contracting with MUD 358 (the "Regional District") in its capacity as the regional provider of such services. The Regional District owns and operates the central water supply and distribution facilities and trunk wastewater conveyance and treatment facilities in Fairfield. The District has also financed storm sewer lines to serve land within the District, and the Regional District provides regional stormwater detention.

The water, wastewater and drainage facilities financed by the District and the Regional District have been designed in accordance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the Texas Department of Health, Harris County and the City of Houston. According to the Engineer, which is also the engineer for the Regional District, and based upon information provided by Turner Collie & Braden, Inc. and Jones & Carter, Inc., formerly engineers for the Regional District, such facilities have been approved by all governmental agencies. During construction, such facilities are subject to inspection by the foregoing governmental agencies.

Operation of the water supply and wastewater treatment facilities of the District and the Regional District are subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ and the Texas Department of Health. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

### **Regional Facilities**

*Water Supply:* Water supply to serve the development within the District is provided by two water supply plants owned and operated by the Regional District. The Regional District's existing water supply facilities will adequately serve 7,000 physical connections based on current TCEQ authorization. The Regional District has previously acquired an elevated storage tank exception from the TCEQ that assesses each water plant component differently than the TCEQ minimum standards, as defined in §290.38, Texas Administrative Code. There are approximately 5,645 active physical connections as of September 1, 2020 (1,067 active residential connections in the District). The Regional District engineer has confirmed that adequate water supply and pressure maintenance is available with the existing facilities to serve the existing development.

*Subsidence and Conversion to Surface Water Supply*: The land within Fairfield is within the jurisdiction of the Harris-Galveston Coastal Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District’s jurisdiction. In 1999, the Texas Legislature created the North Harris County Regional Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including Fairfield). The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. In conjunction with its GRP, the Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The Regional District is included within the Authority’s GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. Effective April 1, 2020, the Authority will charge the Regional District, and other major groundwater users, a fee of \$4.25 per 1,000 gallons of groundwater pumped and \$4.70 per 1,000 gallons of surface water received. The Authority has to date issued \$2,030,175,000 principal amount of revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will issue substantially more bonds to finance the Authority’s project costs.

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

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to continue passing such fees through to its customers through 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 Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

*Wastewater Treatment*: Wastewater treatment for the development within the District is provided by a 2,000,000 gallon per day (“gpd”) wastewater treatment plant owned and operated by the Regional District. The Regional District’s existing wastewater treatment facilities will adequately serve 6,666 equivalent single-family connections based on 300 gpd per equivalent connection; however, usage per connection for the last twelve-month period is approximately 152 gpd. As of August, 2020, there were approximately 7,829 active equivalent single-family connections served by the Regional District (1,082 active equivalent single-family connections within the District).

*Major Trunk Lines*: Major water distribution and wastewater collection lines have been constructed on behalf of MUD 358, in its capacity as the Regional District.

*Detention Basin*: Two detention/amenity lakes which currently provide stormwater detention for 610 acres of development have been constructed on behalf of the Regional District. Stormwater run-off in excess of predevelopment volumes flows into the detention/amenity lakes and is released at a reduced rate into Little Cypress Creek.

## **Regional Contract**

The District is served by a regional water supply, wastewater treatment, and stormwater detention system. The District, MUD 322, MUD 354, MUD 358 and MUD 397 have each entered into a Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Drainage Facilities for the Fairfield Village Community dated March 1, 1992 (the “Regional Contract”). Pursuant to the Regional Contract, MUD 358 acts as the Regional District. The Regional District has built and owns the central water supply, wastewater treatment and stormwater detention facilities, including major trunk lines, for the Fairfield service area (the “Regional Facilities”). The District, MUD 322, MUD 358 (in its capacity as provider of internal facilities), MUD 397, and MUD 354 are required to pay connection charges to MUD 358 for capital costs associated with the construction of the Regional Facilities as land within their boundaries is platted.

The current connection charge adopted by the Regional District is \$7,775 per equivalent single-family connection. The Regional Contract provides that such connection charge can be increased, as estimates of the costs of Regional Facilities and the number of connections in the service area change, but cannot be decreased.

The Regional Contract requires the Regional District to use the connection charges it receives to build necessary Regional Facilities and/or reimburse a developer for facilities currently constructed. A plan of proposed Regional Facilities has been adopted by the Regional District. In the event connection charges are not sufficient to pay for necessary facilities, the Regional District is required to serve those platted areas in the order in which their connection charges were received by the Regional District.

The service area, the services provided by the Regional District, and the participants in the Regional Contract may be changed pursuant to conditions stated in the Regional Contract. The District can make no representation concerning the likelihood of changes in the Regional Contract.

The Regional District is required to operate the Regional Facilities in conjunction with a Joint Operations Council made up of representatives from each participant in the Regional Contract. Each participant in the Regional Contract will pay monthly charges to the Regional District based on water usage for operation and maintenance expenses of the Regional Facilities.

Pursuant to the Regional District, the District, MUD 322, MUD 358 (in its capacity as provider of internal facilities), MUD 397, and MUD 354 will also be responsible for the cost of any financially significant repair, replacement, improvement, betterment or update to the Regional Facilities, including facility updates needed to meet regulatory requirements or to maintain the then existing quality and quantity of services.

### **Payment of Connection Charges to Regional District**

The District has paid the Regional District all connection charges attributable to its planned development. See “THE SYSTEM—Regional Contract.”

### **District Facilities**

Internal water distribution, wastewater collection, storm drainage facilities and paving have been constructed on behalf of the District to serve all of the developable acreage within the District. See “THE DISTRICT—Status of Development.” All of the acreage within the District has been provided with internal water, wastewater and storm drainage.

### **100-Year Flood Plain**

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards.

According to the District’s Engineer, none of the developed acreage within the District is located within the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

### **Atlas 14**

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See “INVESTMENT CONSIDERATIONS—Atlas 14.”

## Waterworks and Sewer System Operating Statement

*General Fund:* The Bonds and the Remaining Outstanding Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Nevertheless, net revenues from operations of the District's water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Remaining Outstanding Bonds and the Bonds, upon Board action. However, it is not anticipated that net revenues will be used or would be sufficient to pay debt service on the Bonds or the Remaining Outstanding Bonds.

The following statement sets forth in condensed form the General Fund as derived from the District's audited financial statements for the years ended December 31, 2016 through 2019 and, for the period ended August 31, 2020, provided by the Bookkeeper. Reference is made to "APPENDIX A—Independent Auditor's Report and Financial Statements" for further and complete information.

	December 31 2019 to August 31, 2020 (a) (Unaudited)	Fiscal Year Ended December 31			
		2019	2018	2017	2016
<b>Revenues</b>					
Property Taxes	\$ 754,092	\$ 806,177	\$ 1,099,566	\$ 1,283,366	\$ 1,340,645
Water & Sewer Service	477,876	753,298	741,871	799,768	815,892
Regional Water Fee	409,837	708,866	591,172	539,129	447,584
Penalty and Interest	2,653	14,946	13,265	15,562	13,732
Tap Connection and Inspection Fees	250	4,710	5,134	6,986	27,940
Investment Income	59,988	114,559	87,137	27,519	11,739
Other Income	1,697	4,114	4,305	3,715	5,150
<b>Total Revenues</b>	<b>\$ 1,706,393</b>	<b>\$ 2,406,670</b>	<b>\$ 2,542,450</b>	<b>\$ 2,676,045</b>	<b>\$ 2,662,682</b>
<b>Expenditures</b>					
Service Operations					
Purchased Services	\$ 230,166	\$ 392,698	\$ 386,514	\$ 372,430	\$ 339,053
Regional Water Fee	461,214	731,296	592,015	564,696	470,285
Professional Fees	60,289	84,163	89,991	93,768	74,227
Contracted Services	258,472	395,989	375,483	434,087	452,654
Utilities	4,767	6,099	6,864	5,950	4,246
Repairs and Maintenance	70,334	110,440	76,277	108,570	84,871
Other Expenditures	32,246	55,890	59,572	52,033	55,277
Tap Connections	475	-	3,680	1,050	8,560
Capital Outlay	23,839	22,301	107,050	-	-
Defeasance Contribution (b)	-	963,219	-	-	-
<b>Total Expenditures</b>	<b>\$ 1,141,802</b>	<b>\$ 2,762,095</b>	<b>\$ 1,697,446</b>	<b>\$ 1,632,584</b>	<b>\$ 1,489,173</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 564,591</b>	<b>\$ (355,425)</b>	<b>\$ 845,004</b>	<b>\$ 1,043,461</b>	<b>\$ 1,173,509</b>
<b>Other Financing Uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 5,214,447</b>	<b>\$ 5,569,872</b>	<b>\$ 4,724,868</b>	<b>\$ 3,681,407</b>	<b>\$ 2,507,898</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 5,779,038</b>	<b>\$ 5,214,447</b>	<b>\$ 5,569,872</b>	<b>\$ 4,724,868</b>	<b>\$ 3,681,407</b>

(a) Unaudited. Provided by the Bookkeeper.

(b) Payment in connection with the defeasance of the Series 2008 Bonds.



## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2020 Taxable Assessed Valuation.....	\$382,695,828	(a)
Gross Direct Debt Outstanding .....	\$13,995,000	(b)
Estimated Overlapping Debt .....	<u>23,907,904</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$37,902,904	
Ratio of Gross Direct Debt to:		
2020 Taxable Assessed Valuation .....	3.66%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation.....	9.90%	
Operating Funds Available as of October 14, 2020 .....	\$5,672,164	(d)
Debt Service Funds Available as of October 14, 2020.....	\$1,151,185	(e)

- (a) The Harris County Appraisal District (the “Appraisal District”) has certified \$361,170,483 and an additional \$21,525,345 remains uncertified and subject to downward adjustment prior to certification. The uncertified amount represents the landowners’ opinion of the value. The 2020 Taxable Assessed Valuation shown throughout this OFFICIAL STATEMENT is the certified value plus the uncertified value. See “TAXING PROCEDURES.”
- (b) After the issuance of the Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (c) See “—Estimated Overlapping Debt” and “—Overlapping Taxes” herein.
- (d) The District plans to use \$450,000 toward the purpose of the Bonds. See “PLAN OF FINANCING—Refunded Bonds.”
- (e) The District plans to use \$165,000 of available debt service funds towards the purpose for which the Bonds are being issued. See “PLAN OF FINANCING—Sources and Uses of Funds.” Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.

### **Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District’s goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

**Estimated Overlapping Debt**

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,966,627,125	9/30/2020	0.080%	\$ 1,573,302
Harris County Flood Control District.....	83,075,000	9/30/2020	0.080%	66,460
Harris County Hospital District.....	86,050,000	9/30/2020	0.080%	68,840
Harris County Department of Education.....	6,320,000	9/30/2020	0.080%	5,056
Port of Houston Authority.....	531,699,397	9/30/2020	0.080%	425,360
Cypress-Fairbanks Independent School District.....	2,967,020,000	9/30/2020	0.700%	20,769,140
Lone Star College System.....	555,415,000	9/30/2020	0.180%	999,747
Total Estimated Overlapping Debt.....				\$ 23,907,904
The District.....	13,995,000	(a)	100.00%	13,995,000
Total Direct and Estimated Overlapping Debt as a % of the 2020 Taxable Assessed Valuation of \$382,695,828.....				\$ 37,902,904

(a) The Bonds and the Remaining Outstanding Bonds.

**Overlapping Taxes**

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

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

	Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority) (a).....	\$ 0.635170
Cypress-Fairbanks Independent School District (b).....	1.355500
Harris County Emergency Services District No. 9 (b).....	0.059492
Lone Star College System (b).....	0.107800
Total Overlapping Tax Rate.....	\$ 2.157962
The District (b)(c).....	0.560000
Total Tax Rate.....	\$ 2.717962

(a) 2019 tax rate.

(b) 2020 tax rate

(c) See "TAX DATA—Historical Tax Rate Distribution."

## TAX DATA

### Debt Service Tax

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

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted November 4, 2003 and May 7, 2005, and voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable value. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

### Historical Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	\$ 0.36	\$ 0.37	\$ 0.40	\$ 0.41	\$ 0.43
Maintenance and Operations	0.20	0.22	0.22	0.30	0.36
Total	\$ 0.56	\$ 0.59	\$ 0.62	\$ 0.71	\$ 0.79

### Exemptions

For tax year 2020, the District granted a \$25,000 homestead exemption for individuals disabled and/or 65 years of age or older.

### Additional Penalties

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

### Historical Tax Collections

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

Tax Year	Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections as of September 30, 2020(b)	
				Amount	Percent
2015	\$ 328,780,496	\$ 0.89	\$ 2,926,146	\$ 2,919,941	99.79%
2016	356,618,348	0.79	2,817,285	2,811,945	99.81%
2017	367,445,734	0.71	2,608,865	2,603,574	99.80%
2018	366,963,091	0.62	2,275,171	2,270,595	99.80%
2019	376,332,784	0.59	2,220,334	2,213,737	99.70%
2020	382,695,828	0.56	2,143,097	(c)	(c)

(a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “Tax Roll Information” below.

(b) Unaudited.

(c) In the process of collection. Taxes for the 2020 tax year are due January 31, 2021.

**Tax Roll Information**

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2016 through 2020 Taxable Assessed Valuation. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Year	Type of Property			Gross Assessed Valuation	Defrements and Exemptions	Uncertified Value	Taxable Assessed Valuation
	Land	Improvements	Personal Property				
2016	\$ 57,899,765	\$ 318,443,899	\$ 3,197,065	\$ 379,540,729	\$ (22,922,381)	\$ -	\$ 356,618,348
2017	58,097,998	328,522,260	3,238,782	389,859,040	(22,413,306)	-	367,445,734
2018	58,088,466	328,800,556	2,409,331	389,298,353	(22,335,262)	-	366,963,091
2019	58,159,351	339,521,309	2,201,887	399,882,547	(23,549,763)	-	376,332,784
2020	56,509,393	323,922,561	1,290,894	381,722,848	(20,552,365)	21,525,345	382,695,828

**Principal Taxpayers**

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property's taxable assessed value as a percentage of the certified portion (\$361,170,483) of the 2020 Taxable Assessed Valuation of \$382,695,828. This represents ownership as of January 1, 2020. A breakdown of the uncertified portion (\$21,525,345) of the 2020 Taxable Assessed Valuation is not available.

Taxpayer	2020 Certified Taxable Assessed Valuation	% of 2020 Certified Taxable Assessed Valuation
Individual	\$ 860,954	0.24%
Centerpoint Energy	800,900	0.22%
Individual	736,133	0.20%
Individual	680,073	0.19%
Individual	668,656	0.19%
Individual	653,706	0.18%
Individual	632,357	0.18%
Individual	621,245	0.17%
Individual	618,996	0.17%
Individual	617,159	0.17%
Total	\$ 6,890,179	1.91%

**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 which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2020 Taxable Assessed Valuation of \$382,695,828 (\$361,170,483 of certified value plus \$21,525,345 of uncertified value). The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "PLAN OF FINANCING—Debt Service Requirements."

Average Annual Debt Service Requirement (2021-2036)	\$1,063,488
\$0.30 Tax Rate on the 2020 Taxable Assessed Valuation	\$1,090,683
Maximum Annual Debt Service Requirement (2022)	\$1,361,619
\$0.38 Tax Rate on the 2020 Taxable Assessed Valuation	\$1,381,532

No representation or suggestion is made that the uncertified portion of the 2020 Taxable Assessed Valuation will not be adjusted downward prior to certification and no person should rely upon such amount or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

## TAXING PROCEDURES

### **Authority to Levy Taxes**

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

### **Property Tax Code and County-Wide Appraisal District**

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

*Veterans Exemptions:* The District must grant certain 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 of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% and the surviving spouse of such a veteran is entitled to an exemption for the full amount of the veteran’s or surviving spouse’s residential homestead. A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residential homestead in an amount equal to the partially disabled veteran’s disability rating if the residential homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces or a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse’s residential homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to subsequent homesteads.

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

*Additional Homestead Exemptions:* The District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair its obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

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

### **Agricultural, Open Space, Timberland, and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land’s capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based upon the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District’s Tax Assessor/Collector, as of January 1, 2020, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

### **Tax Abatement**

The City of Houston and Harris County 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 by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District’s Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

### **Valuation of Property for Taxation**

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

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

### **District and Taxpayer Remedies**

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

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

### **Levy and Collection of Taxes**

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

### **Voter Approval of Tax Rate**

During the 86<sup>th</sup> Regular Legislative Session, Senate Bill 2 ("SB2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a roll back election held within any of the districts described below. New SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units."

Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as “Developed Districts.” Districts that do not meet either of the classifications previously discussed can be classified herein as “Developing Districts.” The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

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

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

### **District's Rights in the Event of Tax Delinquencies**

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

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



## **Tax Payment Installments after Disaster**

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

## **The Effect of FIRREA on Tax Collections of the District**

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

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

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

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Source of Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies and Bankruptcy Limitations” below.

### **Infectious Disease Outbreak (COVID-19)**

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

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

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

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

The District continues to monitor the spread of the Pandemic and is monitoring directives from local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic 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, the financial and operating data herein is not indicative of the economic impact of the Pandemic on the District's financial condition.

### **Recent Extreme Weather Events; Hurricane Harvey**

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

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

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

### **Specific Flood Type Risks**

*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.

### **Atlas 14**

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See "THE SYSTEM—Atlas 14."

## **Tax Collections Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property).

Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **Registered Owners' Remedies and Bankruptcy Limitations**

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

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

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim. If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

### **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. At an election held within the District, voters in the District authorized \$47,100,000 in principal amount of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District and \$47,100,000 in principal amount of unlimited tax refunding bonds. After the issuance of the Bonds, the District will have \$23,355,000 in principal amount of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and drainage system authorized but unissued and \$46,350,000 in principal amount of unlimited tax bonds for refunding outstanding debt of the District authorized but unissued. Further additional tax or tax and revenue bonds may be authorized by the District voters in the future, including bonds to construct and acquire parks and recreational facilities, fire-fighting facilities, or roads.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to issuance guidelines established by the TCEQ. See "THE BONDS—Issuance of Additional Debt." The District has paid the developer in full for all outstanding obligations.

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

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

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

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

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

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

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

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

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

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

The District 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 submitted all necessary documentation to the TCEQ for MS4 Permit compliance. In order to maintain its current compliance with the TCEQ under 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. Unknown future costs associated with these compliance activities may be significant 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 became effective June 22, 2020, and is currently the subject of ongoing litigation.

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

### **Marketability of the Bonds**

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

### **Continuing Compliance with Certain Covenants**

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

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and A2 (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

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

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

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

## **Changes in Tax Legislation**

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

## **MUNICIPAL BOND RATING**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") and Moody's Investors Service, Inc. ("Moody's") has assigned municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook, respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody's has also assigned an underlying rating of "A3" to the Bonds. An explanation of the ratings may be obtained from S&P and Moody's.

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

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **Assured Guaranty Municipal Corp.**

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

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

### *Current Financial Strength Ratings*

On July 16, 2020, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

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

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

### *Capitalization of AGM*

At June 30, 2020:

- The policyholders' surplus of AGM was approximately \$2,667 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,018 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,048 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc ("AGE UK") and Assured Guaranty (Europe) SA ("AGE SA"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (filed by AGL with the SEC on August 7, 2020).

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

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



## *Miscellaneous Matters*

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including (i) a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property in the District and (ii) based upon the examination of such transcript, the legal opinion of Bond Counsel to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also address the matters described below under “Tax Exemption.” Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “PLAN OF FINANCING—Defeasance of Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” and “LEGAL MATTERS” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

In addition to serving as Bond Counsel, Norton Rose Fulbright US LLP also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid 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.

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (“FASIT”), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Tax Accounting Treatment of Premium on Certain Bonds**

The purchase price of certain Bonds (the “Premium Bonds”) paid by an owner is greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for 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 that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer, such as the District, as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to Section 291 of the Code.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT.

### **No-Litigation Certificate**

With the delivery of the Bonds, the President and Secretary of the Board will, on behalf of the District, execute a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is then pending against or, to the best knowledge of the certifying officers, threatened against the District 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 of 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 titles of the then present officers of the Board.

## VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the Issuer, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Paying Agent to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds; (b) mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

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

## PREPARATION OF OFFICIAL STATEMENT

### Sources and Compilation of Information

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

### Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. 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 "TAX DATA" has been provided by Bob Leared Interests 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 descriptions of the internal water, wastewater and storm drainage facilities of the District and the water supply and wastewater treatment facilities of the Regional District, in particular that information included in the sections entitled "THE DISTRICT—General, Description and Location, and Land Use," and "THE SYSTEM" has been provided by BGE, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Waterworks and Sewer System Operating Statement" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such individual as an expert in tracking and managing the various funds of municipal utility districts.

## **Updating the Official Statement**

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

## **Certification of Official Statement**

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

## **CONTINUING DISCLOSURE OF INFORMATION**

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

## **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement included under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" (except for "Estimated Overlapping Debt" and "Overlapping Taxes"), "THE SYSTEM," "TAX DATA," "INVESTMENT CONSIDERATIONS—Future Debt," and in Appendix A. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information to the MSRB or any successor to its functions as a repository through EMMA. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

## **Specified Event Notices**

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of

CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the 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 a financial obligation of the 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. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

#### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

#### **Compliance With Prior Undertakings**

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

### **MISCELLANEOUS**

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the 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/ Aldru Todd Aaron  
President, Board of Directors

ATTEST:

/s/ Chelsea Florack  
Secretary, Board of Directors

**APPENDIX A**

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

# **Harris County Municipal Utility District No. 396**

Harris County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2019



**Harris County Municipal Utility District No. 396**  
**December 31, 2019**

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## Independent Auditor's Report

Board of Directors  
Harris County Municipal Utility District No. 396  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 396 (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
May 1, 2020

# Harris County Municipal Utility District No. 396

## Management's Discussion and Analysis

### December 31, 2019

#### **Overview of the Financial Statements**

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

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

#### **Government-wide Financial Statements**

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

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

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

**Harris County Municipal Utility District No. 396**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2019**

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

**Notes to Financial Statements**

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

**Harris County Municipal Utility District No. 396**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2019**

**Financial Analysis of the District as a Whole**

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

**Summary of Net Position**

	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 8,804,302	\$ 9,173,433
Capital assets	5,114,300	5,272,189
Total assets	13,918,602	14,445,622
Deferred outflows of resources	672,942	509,530
Total assets and deferred outflows of resources	\$ 14,591,544	\$ 14,955,152
Long-term liabilities	\$ 15,509,244	\$ 16,985,939
Other liabilities	338,218	327,545
Total liabilities	15,847,462	17,313,484
Deferred inflows of resources	2,218,693	2,275,353
Net position:		
Net investment in capital assets	(4,584,960)	(6,067,178)
Restricted	933,864	902,966
Unrestricted	176,485	530,527
Total net position	\$ (3,474,611)	\$ (4,633,685)

The total net position of the District increased by \$1,159,074, or about 25 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements, as well as property tax revenues and service revenues in excess of service operations expenses.

**Harris County Municipal Utility District No. 396**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2019**

**Summary of Changes in Net Position**

	<b>2019</b>	<b>2018</b>
Revenues:		
Property taxes	\$ 2,275,686	\$ 2,607,825
Charges for services	1,462,164	1,333,043
Other revenues	185,226	151,219
Total revenues	3,923,076	4,092,087
Expenses:		
Services	1,837,804	1,629,463
Conveyance of capital assets	-	107,049
Depreciation	157,889	157,891
Debt service	768,309	663,613
Total expenses	2,764,002	2,558,016
Change in net position	1,159,074	1,534,071
Net position, beginning of year	(4,633,685)	(6,167,756)
Net position, end of year	\$ (3,474,611)	\$ (4,633,685)

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended December 31, 2019, were \$6,214,047, a decrease of \$356,241 from the prior year.

The general fund's fund balance decreased by \$355,425 due to service operation and principal retirement expenditures exceeding property taxes and service revenues.

The debt service fund's fund balance decreased by \$3,011 because bond principal and interest requirements and debt defeasance were greater than property taxes generated.

The capital projects fund's fund balance increased by \$2,195. This net increase was due to investment income.

**Harris County Municipal Utility District No. 396**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2019**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to regional water fee revenues, as well as regional water fee and capital outlay expenditures being less than anticipated. In addition, principal retirement expenditures related to the early retirement of certain maturities of the Series 2012 Bonds was not budgeted for. The fund balance as of December 31, 2019, was expected to be \$6,007,598 and the actual end-of-year fund balance was \$5,214,447.

**Capital Assets and Related Debt**

Capital Assets

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

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2019</b>	<b>2018</b>
Land and improvements	\$ 30,320	\$ 30,320
Water facilities	1,517,328	1,560,880
Wastewater facilities	2,933,462	3,028,985
Drainage facilities	633,190	652,004
Total capital assets	\$ 5,114,300	\$ 5,272,189

During the current year, there were no additions to capital assets.

Debt

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

Long-term debt payable, beginning of year	\$ 16,985,939
Increases in long-term debt	6,161,653
Decreases in long-term debt	(7,638,348)
Long-term debt payable, end of year	\$ 15,509,244

**Harris County Municipal Utility District No. 396**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2019**

During the fiscal year ended December 31, 2019, the District issued \$6,130,000 in unlimited tax refunding bonds at a net effective interest rate of approximately 3.503 percent to refund \$1,645,000 of outstanding Series 2010 bonds, \$3,240,000 of outstanding Series 2011 bonds and \$1,035,000 of outstanding Series 2012A bonds. The District refunded the bonds to reduce total debt service payments over future years by \$560,602 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$424,261.

At December 31, 2019, the District had \$23,355,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry underlying ratings of "A3" from Moody's Investors Service (Moody's) and "BBB+" from Standard & Poor's (S&P). The Series 2010, 2011, 2012 and 2012A refunding bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2014 and 2019 refunding bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2015 refunding bonds carry an "A2" rating from Moody's by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

**Other Relevant Factors**

**Relationship to the City of Houston**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.



**Harris County Municipal Utility District No. 396**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**December 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 341,289	\$ 1,657,624	\$ 259	\$ 1,999,172	\$ -	\$ 1,999,172
Certificates of deposit	1,932,543	-	-	1,932,543	-	1,932,543
Short-term investments	2,989,811	896,954	98,063	3,984,828	-	3,984,828
Receivables:						
Property taxes	212,181	354,599	-	566,780	-	566,780
Service accounts	78,401	-	-	78,401	-	78,401
Accrued penalty and interest	-	-	-	-	51,752	51,752
Accrued interest	23,269	-	-	23,269	-	23,269
Due from others	164,844	-	-	164,844	-	164,844
Prepaid expenditures	2,713	-	-	2,713	-	2,713
Interfund receivable	578,244	-	-	578,244	(578,244)	-
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	30,320	30,320
Infrastructure	-	-	-	-	5,083,980	5,083,980
<b>Total assets</b>	<b>6,323,295</b>	<b>2,909,177</b>	<b>98,322</b>	<b>9,330,794</b>	<b>4,587,808</b>	<b>13,918,602</b>
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	0	0	0	0	672,942	672,942
<b>Total assets and deferred outflows of resources</b>	<b>\$ 6,323,295</b>	<b>\$ 2,909,177</b>	<b>\$ 98,322</b>	<b>\$ 9,330,794</b>	<b>\$ 5,260,750</b>	<b>\$ 14,591,544</b>

**Harris County Municipal Utility District No. 396**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**December 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 151,792	\$ 463	\$ -	\$ 152,255	\$ -	\$ 152,255
Accrued interest payable	-	-	-	-	80,036	80,036
Customer deposits	102,220	-	-	102,220	-	102,220
Due to others	3,707	-	-	3,707	-	3,707
Interfund payable	-	575,360	2,884	578,244	(578,244)	-
Long-term liabilities:						
Due within one year	-	-	-	-	975,000	975,000
Due after one year	-	-	-	-	14,534,244	14,534,244
<b>Total liabilities</b>	<b>257,719</b>	<b>575,823</b>	<b>2,884</b>	<b>836,426</b>	<b>15,011,036</b>	<b>15,847,462</b>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	851,129	1,429,192	0	2,280,321	(61,628)	2,218,693
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable, prepaid expenditures	2,713	-	-	2,713	(2,713)	-
Restricted:						
Unlimited tax bonds	-	904,162	-	904,162	(904,162)	-
Water, sewer and drainage	-	-	95,438	95,438	(95,438)	-
Assigned, operating deposit	164,844	-	-	164,844	(164,844)	-
Unassigned	5,046,890	-	-	5,046,890	(5,046,890)	-
<b>Total fund balances</b>	<b>5,214,447</b>	<b>904,162</b>	<b>95,438</b>	<b>6,214,047</b>	<b>(6,214,047)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 6,323,295</b>	<b>\$ 2,909,177</b>	<b>\$ 98,322</b>	<b>\$ 9,330,794</b>		
Net position:						
Net investment in capital assets					(4,584,960)	(4,584,960)
Restricted for debt service					913,687	913,687
Restricted for capital projects					20,177	20,177
Unrestricted					176,485	176,485
<b>Total net position</b>					<b>\$ (3,474,611)</b>	<b>\$ (3,474,611)</b>

**Harris County Municipal Utility District No. 396**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended December 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 806,177	\$ 1,465,483	\$ -	\$ 2,271,660	\$ 4,026	\$ 2,275,686
Water and sewer service	753,298	-	-	753,298	-	753,298
Regional water fee	708,866	-	-	708,866	-	708,866
Penalty and interest	14,946	10,372	-	25,318	7,745	33,063
Tap connection and inspection fees	4,710	-	-	4,710	-	4,710
Investment income	114,559	26,565	2,195	143,319	-	143,319
Other income	4,114	20	-	4,134	-	4,134
	<u>2,406,670</u>	<u>1,502,440</u>	<u>2,195</u>	<u>3,911,305</u>	<u>11,771</u>	<u>3,923,076</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Purchased services	392,698	-	-	392,698	-	392,698
Regional water fee	731,296	-	-	731,296	-	731,296
Professional fees	84,163	2,912	-	87,075	-	87,075
Contracted services	395,989	31,454	-	427,443	-	427,443
Utilities	6,099	-	-	6,099	-	6,099
Repairs and maintenance	110,440	-	-	110,440	-	110,440
Other expenditures	55,890	4,562	-	60,452	22,301	82,753
Capital outlay	22,301	-	-	22,301	(22,301)	-
Depreciation	-	-	-	-	157,889	157,889
Debt service:						
Principal retirement	945,000	935,000	-	1,880,000	(1,880,000)	-
Interest and fees	17,219	424,209	-	441,428	104,532	545,960
Debt issuance costs	1,000	221,349	-	222,349	-	222,349
Debt defeasance	-	110,000	-	110,000	(110,000)	-
	<u>2,762,095</u>	<u>1,729,486</u>	<u>0</u>	<u>4,491,581</u>	<u>(1,727,579)</u>	<u>2,764,002</u>
<b>Excess (Deficiency) of Revenues</b>						
<b>Over Expenditures</b>	<u>(355,425)</u>	<u>(227,046)</u>	<u>2,195</u>	<u>(580,276)</u>	<u>(1,739,350)</u>	

**Harris County Municipal Utility District No. 396**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances (Continued)**  
**Year Ended December 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Other Financing Sources (Uses)</b>						
General obligation bonds issued	\$ -	\$ 6,130,000	\$ -	\$ 6,130,000	\$ (6,130,000)	
Payment to escrow agent	-	(5,937,618)	-	(5,937,618)	5,937,618	
Premium on debt issued	-	31,653	-	31,653	(31,653)	
	<u>0</u>	<u>224,035</u>	<u>0</u>	<u>224,035</u>	<u>(224,035)</u>	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>						
	(355,425)	(3,011)	2,195	(356,241)	356,241	
<b>Change in Net Position</b>					1,159,074	\$ 1,159,074
<b>Fund Balances/Net Position</b>						
Beginning of year	<u>5,569,872</u>	<u>907,173</u>	<u>93,243</u>	<u>6,570,288</u>	<u>-</u>	<u>(4,633,685)</u>
End of year	<u>\$ 5,214,447</u>	<u>\$ 904,162</u>	<u>\$ 95,438</u>	<u>\$ 6,214,047</u>	<u>\$ 0</u>	<u>\$ (3,474,611)</u>

# Harris County Municipal Utility District No. 396

## Notes to Financial Statements

### December 31, 2019

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

Harris County Municipal Utility District No. 396 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective July 3, 2003, in accordance with the provisions of Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District does not own water production or wastewater treatment facilities. Pursuant to the agreement described in Note 7, the District has contracted with Harris County Municipal Utility District No. 358 (District No. 358) for the purchase of water and the treatment of wastewater.

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

#### ***Reporting Entity***

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

#### ***Government-wide and Fund Financial Statements***

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

# Harris County Municipal Utility District No. 396

## Notes to Financial Statements

### December 31, 2019

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

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

The District presents the following major governmental funds:

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

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

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

#### **Fund Balances – Governmental Funds**

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

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

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

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

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

# Harris County Municipal Utility District No. 396

## Notes to Financial Statements

### December 31, 2019

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

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

#### ***Measurement Focus and Basis of Accounting***

##### **Government-wide Financial Statements**

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

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

##### **Fund Financial Statements**

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

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

***Deferred Outflows and Inflows of Resources***

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

***Interfund Transactions***

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

***Pension Costs***

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

***Use of Estimates***

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

***Investments and Investment Income***

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

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

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal



**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2018 on the 2018 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended December 31, 2019, the tax levied in October 2019 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ended December 31, 2020. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

**Capital Assets**

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

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

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

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

**Deferred Amount on Debt Refundings**

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

**Harris County Municipal Utility District No. 396**  
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***Debt Issuance Costs***

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

***Long-term Obligations***

In the government wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

***Net Position/Fund Balances***

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

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

The components of unrestricted net position at December 31, 2019, are as follows:

General fund, unrestricted fund balance, including deferred taxes	\$ 5,238,266
Long-term debt on conveyed capital assets	<u>(5,061,781)</u>
Total	<u><u>\$ 176,485</u></u>

The District has financed drainage facilities, which have been assumed by Harris County for maintenance and other incidents of ownership, which has caused long-term debt to be in excess of capital assets.

In addition, the District has contracted for the purchase of water and the treatment of wastewater and has paid connection fees, as discussed in Note 7, which has caused long-term debt to be in excess of capital assets.

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
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***Reconciliation of Government-wide and Fund Financial Statements***

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 5,114,300
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	61,628
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	51,752
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	672,942
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(80,036)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(15,509,244)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (9,688,658)</u></u>

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

Change in fund balances.	\$ (356,241)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current year.	(157,889)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(31,653)

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
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Governmental funds report proceeds of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.	\$ 1,797,618
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	11,771
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(104,532)</u>
Change in net position of governmental activities.	<u><u>\$ 1,159,074</u></u>

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

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

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At December 31, 2019, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

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

The District invests in TexPool Prime and TexSTAR, external investment pools that are not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool Prime and TexSTAR is governed by a Board of Directors, made up of participants and representatives of the administrator and investment manager. The District's investments may be redeemed at any time.

At December 31, 2019, the District had investments and maturities as follows:

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexSTAR	\$ 1,220,536	\$ 1,220,536	\$ -	\$ -	\$ -
TexPool Prime	<u>2,764,292</u>	<u>2,764,292</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 3,984,828</u>	<u>\$ 3,984,828</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019, the District's investments in TexPool Prime and TexSTAR were rated "AAAm" by Standard & Poor's.

**Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheet at December 31, 2019, as shown below:

Carrying value:	
Deposits	\$ 3,931,715
Investments	<u>3,984,828</u>
Total	<u>\$ 7,916,543</u>

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

Included in the following statement of net position captions:

Cash	\$	1,999,172
Certificates of deposit		1,932,543
Short-term investments		<u>3,984,828</u>
Total	\$	<u><u>7,916,543</u></u>

**Investment Income**

Investment income of \$143,319 for the year ended December 31, 2019, consisted of interest income.

**Note 3: Capital Assets**

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

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 30,320	\$ 0	\$ 30,320
Capital assets, depreciable:			
Water production and distribution facilities	1,955,625	-	1,955,625
Wastewater collection and treatment facilities	3,907,352	-	3,907,352
Drainage facilities	846,652	-	846,652
Total capital assets, depreciable	<u>6,709,629</u>	<u>0</u>	<u>6,709,629</u>
Less accumulated depreciation:			
Water production and distribution facilities	(394,745)	(43,552)	(438,297)
Wastewater collection and treatment facilities	(878,367)	(95,523)	(973,890)
Drainage facilities	(194,648)	(18,814)	(213,462)
Total accumulated depreciation	<u>(1,467,760)</u>	<u>(157,889)</u>	<u>(1,625,649)</u>
Total governmental activities, net	<u>\$ 5,272,189</u>	<u>\$ (157,889)</u>	<u>\$ 5,114,300</u>

**Note 4: Long-term Liabilities**

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

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ 17,205,000	\$ 6,130,000	\$ 7,800,000	\$ 15,535,000	\$ 975,000
Less discounts on bonds	304,878	-	190,866	114,012	-
Add premiums on bonds	85,817	31,653	29,214	88,256	-
Total governmental activities long-term liabilities	<u>\$ 16,985,939</u>	<u>\$ 6,161,653</u>	<u>\$ 7,638,348</u>	<u>\$ 15,509,244</u>	<u>\$ 975,000</u>

**General Obligation Bonds**

	<b>Series 2010</b>	<b>Series 2011</b>
Amounts outstanding, December 31, 2019	\$80,000	\$280,000
Interest rate	4.25%	4.00%
Maturity dates, serially beginning/ending	May 1, 2020	May 1, 2020/2021
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2019	May 1, 2019
	<b>Series 2012</b>	<b>Refunding Series 2012A</b>
Amounts outstanding, December 31, 2019	\$2,400,000	\$600,000
Interest rates	2.500% to 3.375%	3.25%
Maturity dates, serially beginning/ending	May 1, 2020/2031	May 1, 2029/2032
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2019	May 1, 2019

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

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

	<b>Series 2014</b>	<b>Refunding Series 2015</b>
	<hr/>	<hr/>
Amounts outstanding, December 31, 2019	\$1,640,000	\$4,405,000
Interest rates	2.00% to 3.75%	2.000% to 3.125%
Maturity dates, serially beginning/ending	May 1, 2020/2036	May 1, 2020/2032
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2022	May 1, 2022
		<b>Refunding Series 2019</b>
		<hr/>
Amount outstanding, December 31, 2019		\$6,130,000
Interest rates		2.000% to 4.000%
Maturity dates, serially beginning/ending		May 1, 2020/2035
Interest payment dates		May 1/ November 1
Callable date*		May 1, 2025

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

***Annual Debt Service Requirements***

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

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	<hr/>	<hr/>	<hr/>
2020	\$ 975,000	\$ 467,169	\$ 1,442,169
2021	990,000	440,119	1,430,119
2022	1,005,000	411,043	1,416,043
2023	1,025,000	378,794	1,403,794
2024	1,050,000	344,019	1,394,019
2025-2029	5,405,000	1,219,843	6,624,843
2030-2034	4,220,000	459,240	4,679,240
2035-2036	865,000	16,577	881,577
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 15,535,000</u>	<u>\$ 3,736,804</u>	<u>\$ 19,271,804</u>



**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

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

Bonds voted	\$ 47,100,000
Bonds sold	23,745,000
Refunding bonds voted	47,100,000
Refunding bonds authorization used	750,000

**Note 5: Significant Bond Order and Commission Requirements**

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended December 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.3700 per \$100 of assessed valuation, which resulted in a tax levy of \$1,391,384 on the taxable valuation of \$376,049,616 for the 2019 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,442,169.

**Note 6: Maintenance Taxes**

At an election held November 4, 2003, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended December 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.2200 per \$100 of assessed valuation, which resulted in a tax levy of \$827,309 on the taxable valuation of \$376,049,616 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Contracts With Other Districts**

***Financing and Operation of Regional Facilities***

On July 29, 2003, the District entered into a regional contract with District No. 358, which will act as a master district and provide, or cause to be provided, the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the District and other adjacent districts. Under the terms of the regional contract, which is in effect through February 29, 2032, operating charges per single-family equivalent connection, plus charges per 1,000 gallons of usage, were established and are billed to the participants on a monthly basis. The District incurred \$392,698 of operating costs attributable to facilities for the year ended December 31, 2019.

**Harris County Municipal Utility District No. 396**  
**Notes to Financial Statements**  
**December 31, 2019**

District No. 358 charges a connection fee for the costs of constructing regional facilities. Through December 31, 2019, the District has been credited with 1,082 water and sewer connections with a value of \$8,412,550. The current water and sewer connection charge is \$7,775. In addition, District No. 358 is authorized, under certain circumstances, to issue contract revenue bonds sufficient to complete acquisition and construction of facilities, as needed, to serve all districts in the service area. Once bonds are issued, each participating district would contribute to the debt service requirements of the bonds.

**Note 8: Regional Water Authority**

The District is within the boundaries of the North Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of December 31, 2019, the Authority was billing District No. 358 \$3.85 per 1,000 gallons of water pumped from its wells, and District No. 358 is billing the District for its pro rata portion. This amount is subject to future increases.

**Note 9: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three years.

**Note 10: Refunding Bonds**

During the fiscal year ended December 31, 2019, the District issued \$6,130,000 in unlimited tax refunding bonds at a net effective interest rate of approximately 3.503 percent to refund \$1,645,000 of outstanding Series 2010 bonds, \$3,240,000 of outstanding Series 2011 bonds and \$1,035,000 of outstanding Series 2012A bonds. The District refunded the bonds to reduce total debt service payments over future years by \$560,602 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$424,261.

# Harris County Municipal Utility District No. 396

## Notes to Financial Statements

December 31, 2019

### **Note 11: Uncertainties**

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

## **Required Supplementary Information**

**Harris County Municipal Utility District No. 396**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended December 31, 2019**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 784,853	\$ 806,177	\$ 21,324
Water and sewer service	785,500	753,298	(32,202)
Regional water fee	833,465	708,866	(124,599)
Penalty and interest	16,500	14,946	(1,554)
Tap connection and inspection fees	4,550	4,710	160
Investment income	85,000	114,559	29,559
Other income	-	4,114	4,114
	<hr/>	<hr/>	<hr/>
Total revenues	2,509,868	2,406,670	(103,198)
<b>Expenditures</b>			
Service operations:			
Purchased services	448,789	392,698	56,091
Regional water fee	833,465	731,296	102,169
Professional fees	97,400	84,163	13,237
Contracted services	395,200	395,989	(789)
Utilities	7,500	6,099	1,401
Repairs and maintenance	116,000	110,440	5,560
Other expenditures	73,438	55,890	17,548
Capital outlay	100,350	22,301	78,049
Debt service:			
Principal retirement	-	945,000	(945,000)
Interest and fees	-	17,219	(17,219)
Debt issuance costs	-	1,000	(1,000)
	<hr/>	<hr/>	<hr/>
Total expenditures	2,072,142	2,762,095	(689,953)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	437,726	(355,425)	(793,151)
<b>Fund Balance, Beginning of Year</b>	5,569,872	5,569,872	-
	<hr/>	<hr/>	<hr/>
<b>Fund Balance, End of Year</b>	\$ 6,007,598	\$ 5,214,447	\$ (793,151)
	<hr/>	<hr/>	<hr/>

**Harris County Municipal Utility District No. 396**  
**Notes to Required Supplementary Information**  
**December 31, 2019**

***Budgets and Budgetary Accounting***

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

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

## **Other Information**

**Harris County Municipal Utility District No. 396**  
**Other Schedules Included Within This Report**  
**December 31, 2019**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 13-27
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants



# Harris County Municipal Utility District No. 396

## Schedule of Services and Rates

### Year Ended December 31, 2019

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input 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):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water and wastewater:	\$ 43.32 *	2,000	N	\$ 0.73	2,001 to 10,000
				\$ 1.45	10,001 to 33,000
				\$ 1.85	33,001 to No Limit
Wastewater:	\$ 0.00	0	Y		
Regional water fee:	\$ 3.85	1	N	\$ 3.85	1,000 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):			Water	\$ 87.66 *	Wastewater \$ 0.00

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC**</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	869	869	x1.0	869
1"	244	243	x2.5	608
1 1/2"	11	11	x5.0	55
2"	7	7	x8.0	56
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,131	1,130		1,588
Total wastewater	1,067	1,066	x1.0	1,066

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

Gallons pumped into the system:	186,973
Gallons billed to customers:	186,973
Water accountability ratio (gallons billed/gallons pumped):	100.00%

\*Includes water, wastewater, security, recycling and solid waste collection.

\*\*"ESFC" means equivalent single-family connections

**Harris County Municipal Utility District No. 396**  
**Schedule of General Fund Expenditures**  
**Year Ended December 31, 2019**

<b>Professional Fees</b>			
Auditing	\$	17,400	
Legal		50,614	
Engineering		<u>16,149</u>	\$ 84,163
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			392,698
<b>Regional Water Fee</b>			
			731,296
<b>Contracted Services</b>			
Bookkeeping		15,786	
Other contracted services		<u>95,753</u>	111,539
<b>Utilities</b>			
			6,099
<b>Repairs and Maintenance</b>			
			110,440
<b>Administrative Expenditures</b>			
Directors' fees		11,400	
Office supplies		21,032	
Insurance		5,439	
Other administrative expenditures		<u>18,019</u>	55,890
<b>Capital Outlay</b>			
Expenditures not capitalized			22,301
<b>Tap Connection Expenditures</b>			
			-
<b>Solid Waste Disposal</b>			
			284,450
<b>Fire Fighting</b>			
			-
<b>Parks and Recreation</b>			
			-
<b>Other Expenditures</b>			
			<u>963,219</u>
Total expenditures			<u><u>\$ 2,762,095</u></u>

**Harris County Municipal Utility District No. 396**  
**Schedule of Temporary Investments**  
**December 31, 2019**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificates of Deposit				
No. 5000006790	2.75%	02/15/20	\$ 242,543	\$ 5,829
No. 0460019537	2.65%	06/24/20	240,000	3,311
No. 1852005197	2.75%	06/24/20	240,000	3,435
No. 6000018074	2.75%	02/05/20	240,000	5,949
No. 95900011890555	2.75%	06/24/20	240,000	3,436
No. 36000886	2.45%	10/30/20	240,000	999
No. 6002400292	1.80%	12/16/20	245,000	169
No. 51204599	1.75%	12/19/20	245,000	141
TexSTAR	1.57%	Demand	733,041	-
TexPool Prime	1.84%	Demand	960,227	-
TexPool Prime	1.84%	Demand	<u>1,296,543</u>	<u>-</u>
			<u>4,922,354</u>	<u>23,269</u>
<b>Debt Service Fund</b>				
TexSTAR	1.57%	Demand	438,508	-
TexPool Prime	1.84%	Demand	<u>458,446</u>	<u>-</u>
			<u>896,954</u>	<u>0</u>
<b>Capital Projects Fund</b>				
TexSTAR	1.57%	Demand	48,987	-
TexPool Prime	1.84%	Demand	<u>49,076</u>	<u>-</u>
			<u>98,063</u>	<u>0</u>
Totals			<u>\$ 5,917,371</u>	<u>\$ 23,269</u>

**Harris County Municipal Utility District No. 396**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended December 31, 2019**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 241,979	\$ 434,335
Additions and corrections to prior years' taxes	<u>176</u>	<u>155</u>
Adjusted receivable, beginning of year	<u>242,155</u>	<u>434,490</u>
<b>2019 Original Tax Levy</b>	803,229	1,350,886
Additions and corrections	<u>24,080</u>	<u>40,498</u>
Adjusted tax levy	<u>827,309</u>	<u>1,391,384</u>
Total to be accounted for	1,069,464	1,825,874
Tax collections: Current year	(638,947)	(1,074,593)
Prior years	<u>(218,336)</u>	<u>(396,682)</u>
Receivable, end of year	<u>\$ 212,181</u>	<u>\$ 354,599</u>
<b>Receivable, by Years</b>		
2019	\$ 188,362	\$ 316,791
2018	1,628	2,960
2017	2,235	3,055
2016	2,433	2,907
2015	2,859	3,347
2014	3,001	3,914
2013	2,567	4,596
2012	1,311	3,001
2011	1,035	3,381
2010	1,584	3,096
2009	3,034	3,287
2008	<u>2,132</u>	<u>4,264</u>
Receivable, end of year	<u>\$ 212,181</u>	<u>\$ 354,599</u>

**Harris County Municipal Utility District No. 396**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Property Valuations</b>				
Land	\$ 58,159,351	\$ 58,088,466	\$ 58,085,235	\$ 57,942,832
Improvements	339,521,309	328,870,598	328,604,199	318,443,899
Personal property	1,271,388	1,444,874	1,569,419	1,920,436
Exemptions	<u>(22,902,432)</u>	<u>(21,411,469)</u>	<u>(20,715,906)</u>	<u>(20,881,426)</u>
Total property valuations	<u>\$ 376,049,616</u>	<u>\$ 366,992,469</u>	<u>\$ 367,542,947</u>	<u>\$ 357,425,741</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.3700	\$ 0.4000	\$ 0.4100	\$ 0.4300
Maintenance tax rates*	<u>0.2200</u>	<u>0.2200</u>	<u>0.3000</u>	<u>0.3600</u>
Total tax rates per \$100 valuation	<u>\$ 0.5900</u>	<u>\$ 0.6200</u>	<u>\$ 0.7100</u>	<u>\$ 0.7900</u>
<b>Tax Levy</b>	<u>\$ 2,218,693</u>	<u>\$ 2,275,353</u>	<u>\$ 2,609,555</u>	<u>\$ 2,823,663</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>77%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.50 on November 4, 2003

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

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	Series 2010		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	<u>\$ 80,000</u>	<u>\$ 1,700</u>	<u>\$ 81,700</u>

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

<b>Due During Fiscal Years Ending December 31</b>	<b>Series 2011</b>		
	<b>Principal Due May 1</b>	<b>Interest Due May 1, November 1</b>	<b>Total</b>
2020	\$ 140,000	\$ 8,400	\$ 148,400
2021	140,000	2,800	142,800
Totals	<u>\$ 280,000</u>	<u>\$ 11,200</u>	<u>\$ 291,200</u>

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	Series 2012		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	\$ 200,000	\$ 69,500	\$ 269,500
2021	200,000	64,500	264,500
2022	200,000	59,000	259,000
2023	200,000	53,000	253,000
2024	200,000	47,000	247,000
2025	200,000	41,000	241,000
2026	200,000	35,000	235,000
2027	200,000	29,000	229,000
2028	200,000	22,875	222,875
2029	200,000	16,625	216,625
2030	200,000	10,125	210,125
2031	200,000	3,375	203,375
Totals	\$ 2,400,000	\$ 451,000	\$ 2,851,000



**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	Refunding Series 2012A		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	\$ -	\$ 19,500	\$ 19,500
2021	-	19,500	19,500
2022	-	19,500	19,500
2023	-	19,500	19,500
2024	-	19,500	19,500
2025	-	19,500	19,500
2026	-	19,500	19,500
2027	-	19,500	19,500
2028	-	19,500	19,500
2029	140,000	17,224	157,224
2030	150,000	12,513	162,513
2031	150,000	7,638	157,638
2032	160,000	2,600	162,600
Totals	\$ 600,000	\$ 215,475	\$ 815,475

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	Series 2014		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	\$ 100,000	\$ 52,250	\$ 152,250
2021	100,000	49,250	149,250
2022	100,000	46,250	146,250
2023	100,000	43,250	143,250
2024	100,000	40,250	140,250
2025	100,000	37,250	137,250
2026	100,000	34,250	134,250
2027	100,000	31,250	131,250
2028	100,000	28,125	128,125
2029	100,000	24,875	124,875
2030	100,000	21,500	121,500
2031	100,000	18,000	118,000
2032	100,000	14,438	114,438
2033	100,000	10,813	110,813
2034	100,000	7,125	107,125
2035	70,000	3,937	73,937
2036	70,000	1,312	71,312
Totals	\$ 1,640,000	\$ 464,125	\$ 2,104,125

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	<u>Refunding Series 2015</u>		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	\$ 330,000	\$ 126,475	\$ 456,475
2021	340,000	118,075	458,075
2022	355,000	107,650	462,650
2023	365,000	96,850	461,850
2024	380,000	85,675	465,675
2025	395,000	74,050	469,050
2026	410,000	61,975	471,975
2027	425,000	49,450	474,450
2028	440,000	36,475	476,475
2029	225,000	26,500	251,500
2030	235,000	19,453	254,453
2031	250,000	11,875	261,875
2032	255,000	3,985	258,985
Totals	<u>\$ 4,405,000</u>	<u>\$ 818,488</u>	<u>\$ 5,223,488</u>

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	<u>Refunding Series 2019</u>		
	Principal Due May 1	Interest Due May 1, November 1	Total
2020	\$ 125,000	\$ 189,344	\$ 314,344
2021	210,000	185,994	395,994
2022	350,000	178,643	528,643
2023	360,000	166,194	526,194
2024	370,000	151,594	521,594
2025	380,000	138,494	518,494
2026	390,000	126,944	516,944
2027	395,000	115,168	510,168
2028	420,000	102,944	522,944
2029	285,000	92,369	377,369
2030	280,000	83,894	363,894
2031	280,000	75,493	355,493
2032	280,000	67,094	347,094
2033	545,000	54,719	599,719
2034	735,000	34,600	769,600
2035	725,000	11,328	736,328
Totals	<u>\$ 6,130,000</u>	<u>\$ 1,774,816</u>	<u>\$ 7,904,816</u>

**Harris County Municipal Utility District No. 396**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2019**

Due During Fiscal Years Ending December 31	<u>Annual Requirements For All Series</u>		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 975,000	\$ 467,169	\$ 1,442,169
2021	990,000	440,119	1,430,119
2022	1,005,000	411,043	1,416,043
2023	1,025,000	378,794	1,403,794
2024	1,050,000	344,019	1,394,019
2025	1,075,000	310,294	1,385,294
2026	1,100,000	277,669	1,377,669
2027	1,120,000	244,368	1,364,368
2028	1,160,000	209,919	1,369,919
2029	950,000	177,593	1,127,593
2030	965,000	147,485	1,112,485
2031	980,000	116,381	1,096,381
2032	795,000	88,117	883,117
2033	645,000	65,532	710,532
2034	835,000	41,725	876,725
2035	795,000	15,265	810,265
2036	70,000	1,312	71,312
Totals	<u>\$ 15,535,000</u>	<u>\$ 3,736,804</u>	<u>\$ 19,271,804</u>

**Harris County Municipal Utility District No. 396**  
**Changes in Long-term Bonded Debt**  
**Year Ended December 31, 2019**

**Bond**

	<b>Series 2010</b>	<b>Series 2011</b>	<b>Series 2012</b>
Interest rates	4.25%	4.00%	2.500% to 3.375%
Dates interest payable	May 1/ November 1	May 1/ November 1	May 1/ November 1
Maturity dates	May 1, 2020	May 1, 2020/2021	May 1, 2020/2031
Bonds outstanding, beginning of current year	\$ 1,805,000	\$ 3,660,000	\$ 3,545,000
Bonds sold during current year	-	-	-
Principal refunded	1,645,000	3,240,000	-
Retirements, principal	<u>80,000</u>	<u>140,000</u>	<u>1,145,000</u>
Bonds outstanding, end of current year	<u>\$ 80,000</u>	<u>\$ 280,000</u>	<u>\$ 2,400,000</u>
Interest paid during current year	<u>\$ 5,800</u>	<u>\$ 14,088</u>	<u>\$ 76,000</u>

Paying agent's name and address:

<b>Series 2010</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2011</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2012</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2012A</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2014</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2015</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
<b>Series 2019</b>	- The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Refunding Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 47,100,000	0	\$ 47,100,000
Amount issued	\$ 23,745,000	0	\$ 750,000
Remaining to be issued	<u>\$ 23,355,000</u>	<u>0</u>	<u>\$ 46,350,000</u>

Debt service fund cash and temporary investment balances as of December 31, 2019: \$ 2,554,578

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,133,636

**Issues**

<b>Refunding Series 2012A</b>	<b>Series 2014</b>	<b>Refunding Series 2015</b>	<b>Refunding Series 2019</b>	<b>Totals</b>
3.25%	2.00% to 3.75%	2.000% to 3.125%	2.000% to 4.000%	
May 1/ November 1	May 1/ November 1	May 1/ November 1	May 1/ November 1	
May 1, 2029/2032	May 1, 2020/2036	May 1, 2020/2032	May 1, 2020/2035	
\$ 1,725,000	\$ 1,740,000	\$ 4,730,000	\$ -	\$ 17,205,000
-	-	-	6,130,000	6,130,000
1,035,000	-	-	-	5,920,000
90,000	100,000	325,000	-	1,880,000
<u>\$ 600,000</u>	<u>\$ 1,640,000</u>	<u>\$ 4,405,000</u>	<u>\$ 6,130,000</u>	<u>\$ 15,535,000</u>
<u>\$ 20,400</u>	<u>\$ 54,750</u>	<u>\$ 133,025</u>	<u>\$ 127,063</u>	<u>\$ 431,126</u>

**Harris County Municipal Utility District No. 396**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended December 31,**

	Amounts				
	2019	2018	2017	2016	2015
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 806,177	\$ 1,099,566	\$ 1,283,366	\$ 1,340,645	\$ 1,283,508
Water and sewer service	753,298	741,871	799,768	815,892	763,261
Regional water fee	708,866	591,172	539,129	447,584	322,092
Penalty and interest	14,946	13,265	15,562	13,732	16,391
Tap connection and inspection fees	4,710	5,134	6,986	27,940	50,242
Investment income	114,559	87,137	27,519	11,739	9,577
Other income	4,114	4,305	3,715	5,150	5,342
	<u>2,406,670</u>	<u>2,542,450</u>	<u>2,676,045</u>	<u>2,662,682</u>	<u>2,450,413</u>
Total revenues					
<b>Expenditures</b>					
Service operations:					
Purchased services	392,698	386,514	372,430	339,053	260,618
Regional water fee	731,296	592,015	564,696	470,285	343,426
Professional fees	84,163	89,991	93,768	74,227	105,073
Contracted services	395,989	375,483	434,087	452,654	423,399
Utilities	6,099	6,864	5,950	4,246	3,673
Repairs and maintenance	110,440	76,277	108,570	84,871	65,737
Other expenditures	55,890	59,572	52,033	55,277	52,007
Tap connections	-	3,680	1,050	8,560	20,255
Capital outlay	22,301	107,050	-	-	-
Debt service:					
Principal retirement	945,000	-	-	-	-
Interest and fees	17,219	-	-	-	-
Debt issuance costs	1,000	-	-	-	4,972
Debt defeasance	-	-	-	-	11
	<u>2,762,095</u>	<u>1,697,446</u>	<u>1,632,584</u>	<u>1,489,173</u>	<u>1,279,171</u>
Total expenditures					
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(355,425)	845,004	1,043,461	1,173,509	1,171,242
<b>Other Financing Uses</b>					
Payment to escrow agent	-	-	-	-	(1,689,560)
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(355,425)	845,004	1,043,461	1,173,509	(518,318)
<b>Fund Balance, Beginning of Year</b>	<u>5,569,872</u>	<u>4,724,868</u>	<u>3,681,407</u>	<u>2,507,898</u>	<u>3,026,216</u>
<b>Fund Balance, End of Year</b>	<u>\$ 5,214,447</u>	<u>\$ 5,569,872</u>	<u>\$ 4,724,868</u>	<u>\$ 3,681,407</u>	<u>\$ 2,507,898</u>
<b>Total Active Retail Water Connections</b>	<u>1,130</u>	<u>1,131</u>	<u>1,131</u>	<u>1,126</u>	<u>1,097</u>
<b>Total Active Retail Wastewater Connections</b>	<u>1,066</u>	<u>1,067</u>	<u>1,068</u>	<u>1,063</u>	<u>1,036</u>



**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
33.5 %	43.2 %	48.0 %	50.4 %	52.4 %
31.3	29.2	29.9	30.7	31.1
29.5	23.3	20.1	16.8	13.1
0.6	0.5	0.6	0.5	0.7
0.2	0.2	0.3	1.0	2.1
4.8	3.4	1.0	0.4	0.4
0.1	0.2	0.1	0.2	0.2
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
16.3	15.2	13.9	12.7	10.6
30.4	23.3	21.1	17.7	14.0
3.5	3.5	3.5	2.8	4.3
16.5	14.8	16.2	17.0	17.3
0.3	0.3	0.2	0.1	0.2
4.6	3.0	4.1	3.2	2.7
2.3	2.3	1.9	2.1	2.1
-	0.1	0.1	0.3	0.8
0.9	4.2	-	-	-
39.3	-	-	-	-
0.7	-	-	-	-
0.0	-	-	-	0.2
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.0</u>
<u>114.8</u>	<u>66.7</u>	<u>61.0</u>	<u>55.9</u>	<u>52.2</u>
<u>(14.8) %</u>	<u>33.3 %</u>	<u>39.0 %</u>	<u>44.1 %</u>	<u>47.8 %</u>

**Harris County Municipal Utility District No. 396**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended December 31,**

	Amounts				
	2019	2018	2017	2016	2015
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 1,465,483	\$ 1,502,701	\$ 1,532,884	\$ 1,569,304	\$ 1,674,791
Penalty and interest	10,372	6,194	17,406	9,588	8,232
Investment income	26,565	24,195	9,318	4,923	3,878
Other income	20	-	-	-	-
Total revenues	<u>1,502,440</u>	<u>1,533,090</u>	<u>1,559,608</u>	<u>1,583,815</u>	<u>1,686,901</u>
<b>Expenditures</b>					
Current:					
Professional fees	2,912	1,226	2,280	1,373	1,581
Contracted services	31,454	33,744	35,166	36,308	38,064
Other expenditures	4,562	4,080	9,765	3,684	3,981
Debt service:					
Principal retirement	935,000	925,000	905,000	880,000	695,000
Interest and fees	424,209	628,460	663,916	703,742	696,905
Debt issuance costs	221,349	-	-	-	183,082
Debt defeasance	110,000	-	-	-	110,000
Total expenditures	<u>1,729,486</u>	<u>1,592,510</u>	<u>1,616,127</u>	<u>1,625,107</u>	<u>1,728,613</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(227,046)</u>	<u>(59,420)</u>	<u>(56,519)</u>	<u>(41,292)</u>	<u>(41,712)</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	6,130,000	-	-	-	5,045,000
Payment to escrow agent	(5,937,618)	-	-	-	(4,934,313)
Premium on debt issued	31,653	-	-	-	72,395
Total other financing sources	<u>224,035</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>183,082</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>(3,011)</u>	<u>(59,420)</u>	<u>(56,519)</u>	<u>(41,292)</u>	<u>141,370</u>
<b>Fund Balance, Beginning of Year</b>	<u>907,173</u>	<u>966,593</u>	<u>1,023,112</u>	<u>1,064,404</u>	<u>923,034</u>
<b>Fund Balance, End of Year</b>	<u>\$ 904,162</u>	<u>\$ 907,173</u>	<u>\$ 966,593</u>	<u>\$ 1,023,112</u>	<u>\$ 1,064,404</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
97.5 %	98.0 %	98.3 %	99.1 %	99.3 %
0.7	0.4	1.1	0.6	0.5
1.8	1.6	0.6	0.3	0.2
0.0	-	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.2	0.1	0.2	0.1	0.1
2.1	2.2	2.3	2.3	2.3
0.3	0.3	0.6	0.2	0.2
62.2	60.3	58.0	55.6	41.2
28.3	41.0	42.5	44.4	41.3
14.7	-	-	-	10.8
7.3	-	-	-	6.6
<u>115.1</u>	<u>103.9</u>	<u>103.6</u>	<u>102.6</u>	<u>102.5</u>
<u>(15.1) %</u>	<u>(3.9) %</u>	<u>(3.6) %</u>	<u>(2.6) %</u>	<u>(2.5) %</u>

**Harris County Municipal Utility District No. 396**  
**Board Members, Key Personnel and Consultants**  
**Year Ended December 31, 2019**

Complete District mailing address:	Harris County Municipal Utility District No. 396 c/o Norton Rose Fulbright US LLP 1301 McKinney, Suite 5100 Houston, Texas 77010-3095
District business telephone number:	713.651.5151
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>September 19, 2017</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

<b>Board Members</b>	<b>Term of Office Elected &amp; Expires</b>	<b>Fees*</b>	<b>Expense Reimbursements</b>	<b>Title at Year-end</b>
Aldru Todd Aaron	Elected 05/18- 05/22	\$ 1,650	\$ 323	President
Michael Brewer	Elected 05/18- 05/22	1,800	392	Vice President/ Assistant Secretary
Chelsea Florack	Appointed 03/18- 05/20	2,100	305	Secretary
Tim Applewhite	Elected 05/18- 05/22	3,600	2,306	Treasurer
James Brown	Elected 05/16- 05/20	2,250	556	Assistant Secretary

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

**Harris County Municipal Utility District No. 396**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended December 31, 2019**

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BGE, Inc.	04/09/14	\$ 14,541	Engineer
BKD, LLP	08/23/06	18,900	Auditor
Bob Leared Interests	09/30/03	21,384	Tax Assessor/ Collector
Harris County Appraisal District	Legislative Action	16,177	Appraiser
Inframark LLC	07/29/03	165,885	Operator
Masterson Advisors LLC	06/13/18	59,383	Financial Advisor
Myrtle Cruz, Inc.	08/01/03	20,637	Bookkeeper
Norton Rose Fulbright US LLP	07/29/03	111,914	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/18/05	2,912	Delinquent Tax Attorney
<b>Investment Officer</b>			
Mary Jarmon	08/01/03	N/A	Bookkeeper

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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