

OFFICIAL STATEMENT DATED OCTOBER 21, 2020

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

The Bonds have not been designated "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book-Entry-Only Form

S&P (AGM Insured) "AA"
Moody's (AGM Insured) "A2"
Moody's (Underlying) "A1"

\$15,000,000

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

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

UNLIMITED TAX BONDS

SERIES 2020

Dated: November 1, 2020

Due: September 1, as shown on inside cover

The \$15,000,000 Unlimited Tax Bonds, Series 2020 (the "Bonds"), are obligations of Harris County Fresh Water Supply District No. 61 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, (the "Paying Agent/Registrar"). Interest on the Bonds accrues from November 1, 2020, at the rates shown on the inside cover page hereof, and is payable on March 1, 2021 (four months interest), and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS – Book-Entry-Only System."

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.

The Bonds, when issued, constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.



The Bonds and the issuance thereof are subject to special investment considerations described herein. Prospective purchasers should carefully examine this entire Official Statement, particularly the section of this Official Statement entitled "INVESTMENT CONSIDERATIONS," before making an investment decision. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Delivery of the Bonds through the facilities of DTC is expected on or about November 19, 2020.

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

\$2,715,000 Term Bonds Due September 1, 2032 (c) (d), Interest Rate: 2.000% (Price: \$101.092) (a), CUSIP No. 414150 UE0 (b)
\$4,325,000 Term Bonds Due September 1, 2035 (c) (d), Interest Rate: 2.000% (Price: \$100.000) (a), CUSIP No. 414150 UH3 (b)
\$3,070,000 Term Bonds Due September 1, 2037 (c) (d), Interest Rate: 2.125% (Price: \$98.259) (a), CUSIP No. 414150 UK6 (b)
\$4,890,000 Term Bonds Due September 1, 2040 (c) (d), Interest Rate: 2.250% (Price: \$98.111) (a), CUSIP No. 414150 UN0 (b)

-
- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (as herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2020, is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds. None of the District, Financial Advisor, or Initial Purchaser shall be responsible for the selection or the correctness of the CUSIP numbers.
- (c) That Bonds shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions – *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

This Official Statement is not to be used in connection with 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.

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. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission ("SEC"), as amended.

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."

TABLE OF CONTENTS

| | |
|--|---|
| USE OF INFORMATION IN OFFICIAL STATEMENT...1 | Outstanding Bonds 12 |
| SALE AND DISTRIBUTION OF THE BONDS3 | Issuance of Additional Debt..... 13 |
| Award of the Bonds3 | Paying Agent/Registrar 13 |
| Prices and Marketability3 | Remedies in Event of Default 14 |
| Securities Laws.....3 | Registered Owners' Remedies..... 14 |
| MUNICIPAL BOND INSURANCE3 | Registration, Transfer and Exchange 15 |
| Bond Insurance Policy3 | Mutilated, Lost, Stolen or Destroyed Bonds 15 |
| Assured Guaranty Municipal Corp.....4 | Redemption Provisions 15 |
| MUNICIPAL BOND RATINGS5 | No Arbitrage 17 |
| OFFICIAL STATEMENT SUMMARY7 | Defeasance 17 |
| INTRODUCTION11 | Legal Investment and Eligibility to Secure |
| THE BONDS.....11 | Public Funds in Texas..... 18 |
| General11 | Annexation and Consolidation 18 |
| Source of Payment12 | Strategic Partnership Agreement 19 |
| Authority of Issuance 12 | Book-Entry-Only System 19 |

| | | | |
|---|----|---|----|
| Use of Certain Terms in Other Sections of this Official Statement..... | 21 | Recent Extreme Weather: Hurricane Harvey..... | 40 |
| Use and Distribution of Bond Proceeds | 21 | Specific Flood Type Risks | 41 |
| THE DISTRICT..... | 22 | Infectious Disease Outlook – COVID-19 | 41 |
| Authority | 22 | Dependence on the Oil and Gas Industry | 42 |
| Description..... | 22 | Tax Collections and Foreclosure Remedies..... | 42 |
| Management..... | 22 | Registered Owners' Remedies..... | 43 |
| DEVELOPMENT OF THE DISTRICT | 23 | Bankruptcy Limitation to Registered Owners' Rights | 43 |
| DISTRICT DEBT | 24 | Marketability of the Bonds..... | 43 |
| General..... | 24 | Competitive Nature of Houston Residential Housing Markets..... | 44 |
| Bonded Indebtedness..... | 24 | Future Debt..... | 44 |
| Estimated Direct and Overlapping Debt Statement..... | 25 | Future and Proposed Legislation | 44 |
| Debt Ratios..... | 25 | Approval of the Bonds..... | 45 |
| Debt Service Requirement Schedule | 26 | Continuing Compliance with Certain Covenants | 45 |
| TAXING PROCEDURES | 27 | Environmental Regulations..... | 45 |
| District Ability to Levy Taxes..... | 27 | Bond Insurance Risk Factors | 47 |
| Property Tax Code and County-Wide Appraisal District | 27 | LEGAL MATTERS..... | 48 |
| Property Subject to Taxation by the District..... | 27 | Legal Opinions..... | 48 |
| Tax Abatement | 28 | Legal Review | 49 |
| Valuation of Property for Taxation | 29 | NO MATERIAL ADVERSE CHANGE..... | 49 |
| Reappraisal of Property | 29 | NO-LITIGATION CERTIFICATE | 49 |
| Tax Payment Installments after Disaster | 29 | TAX MATTERS | 49 |
| District and Taxpayer Remedies | 30 | Tax Exemption..... | 49 |
| Rollback of Operation and Maintenance Tax Rate..... | 30 | Collateral Federal Income Tax Consequences | 50 |
| Levy and Collection of Taxes..... | 31 | State, Local and Foreign Taxes..... | 50 |
| District's Rights in the Event of Tax Delinquencies..... | 31 | Tax Accounting Treatment of Original Issue Discount and Premium Bonds..... | 51 |
| TAX DATA | 33 | Not Qualified Tax-Exempt Obligations | 52 |
| Debt Service Tax | 33 | CONTINUING DISCLOSURE OF INFORMATION..... | 52 |
| Maintenance Tax | 33 | Annual Reports..... | 52 |
| Historical Values and Tax Collection History | 33 | Event Notices | 52 |
| Analysis of Tax Base..... | 33 | Availability of Information from MSRB | 53 |
| Principal Taxpayers | 34 | Limitations and Amendments | 53 |
| Estimated Overlapping Taxes..... | 34 | Compliance with Prior Undertakings..... | 53 |
| Tax Rate Calculations | 34 | PREPARATION OF OFFICIAL STATEMENT | 53 |
| THE SYSTEM..... | 35 | Sources and Compilation of Information..... | 53 |
| Description of the System..... | 35 | Updating of Official Statement | 54 |
| Contracts for Service with Others..... | 35 | Certification as to Official Statement..... | 54 |
| Subsidence and Conversion to Surface Water Supply..... | 37 | CONCLUDING STATEMENT | 54 |
| Operating History..... | 39 | APPENDIX A Financial Statements of the District | |
| INVESTMENT CONSIDERATIONS | 40 | APPENDIX B Specimen Municipal Bond Insurance Policy | |
| General..... | 40 | | |
| Factors Affecting Taxable Values and Tax Payments | 40 | | |

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest bid, resulting in the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS" on the inside cover hereof at a price of 98.244513% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.238795%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

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

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, dealer or similar person or organization acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

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 an appendix to this Official Statement.

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

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 this heading "MUNICIPAL BOND INSURANCE."

MUNICIPAL BOND RATINGS

The Bonds have received an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. A security rating is not a recommendation to buy, sell or hold securities. Furthermore, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds have received an insured rating of "A2" from Moody's solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. Moody's has also assigned an underlying credit rating of "A1" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. A security rating is not a recommendation to buy, sell, or hold securities. Furthermore, there is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P, the insured rating of Moody's, or the underlying rating of Moody's.

[Remainder of Page Intentionally Left Blank]

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- The Issuer Harris County Fresh Water Supply District No. 61 (the “District”) is a political subdivision of the State of Texas located within Harris County, Texas, and comprises approximately 1,825 acres. See “THE DISTRICT.”
- The Issue The District’s \$15,000,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”), are dated November 1, 2020, and mature on September 1 in each of the years and in the respective amounts shown on the inside cover page hereof. Interest on the Bonds is payable on March 1, 2021 (four months interest), and on each September 1 and March 1 thereafter until maturity or prior redemption. See “THE BONDS.”
- Redemption Provisions The Bonds are subject to early redemption at the option of the District on September 1, 2026, or on any date thereafter, at a price of par plus accrued interest. See “THE BONDS – Redemption Provisions – *Optional Redemption*.” The Bonds are also subject to the mandatory redemption provisions as set out herein under “THE BONDS – Redemption Provisions – *Mandatory Redemption*.”
- Source of Payment Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any political subdivision other than the District. See “THE BONDS – Source of Payment.”
- Payment Record..... The District has never defaulted on the timely payment of principal of or interest on its prior bonded indebtedness.
- Outstanding Bonds The District has previously issued eighteen series of bonds for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District and nine series of unlimited tax refunding bonds. As of September 2, 2020, \$26,530,000 principal amount of such previously issued bonds remains outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”
- Use of Proceeds Proceeds from the sale of the Bonds will be used to pay for project costs related to the rehabilitation of the District’s water supply and wastewater systems. Proceeds from the sale of the Bonds will also be used to pay for improvements to the District’s drainage system and to pay costs of issuance of the Bonds. See “THE BONDS – Use and Distribution of Bonds Proceeds” for further information.
- Not Qualified Tax-Exempt Obligations The Bonds are not “qualified tax-exempt obligations” for financial institutions.

| | |
|--------------------------------|---|
| Municipal Bond Insurance | Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.” |
| Ratings..... | S&P (AGM Insured): “AA.” Moody’s (AGM Insured): “A2.” Moody’s (Underlying): “A1.” See “MUNICIPAL BOND RATINGS” above. |
| Bond Counsel | Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas. |
| Financial Advisor..... | Robert W. Baird & Co. Incorporated, Houston, Texas. |
| Disclosure Counsel | McCall, Parkhurst & Horton L.L.P., Houston, Texas. |
| Paying Agent..... | Zions Bancorporation, National Association, Houston, Texas. |

THE DISTRICT

| | |
|----------------------------|--|
| Description..... | The District is a political subdivision of the State of Texas that contains approximately 1,825 total acres located entirely within Harris County, Texas, approximately 20 miles northwest of the central business district of the City of Houston, and wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is located within Cypress-Fairbanks Independent School District. See “THE DISTRICT – Description.” |
| Authority..... | The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. |
| Status of Development..... | Initial development in the District began in 1966. To date, approximately 1,070 acres in the District have been developed as single-family residential subdivisions (which include a total of approximately 3,808 completed homes), approximately 129 acres have been developed to serve multi-family residential properties, and approximately 418 acres in the District have been developed for commercial purposes. The balance of the District’s acreage consists of approximately 76 acres for schools and churches and approximately 132 acres for parks, rights-of-way, streets, detention ponds, and District facilities. All developable acreage in the District is served by water, sewer and drainage facilities. See “THE DISTRICT – Status of Development.” |

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively

affecting economic growth and financial markets worldwide and within Texas.

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

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

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THIS ENTIRE OFFICIAL STATEMENT, PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS," BEFORE MAKING AN INVESTMENT DECISION.

[Remainder of Page Intentionally Left Blank]

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

| | |
|--|--------------------------|
| 2020 Taxable Assessed Valuation..... | \$1,189,166,520 (a) |
| Direct Debt: | |
| The Outstanding Bonds (as of September 2, 2020) | \$ 26,530,000 |
| The Bonds | <u>\$ 15,000,000</u> |
| Total..... | \$ 41,530,000 |
| Estimated Overlapping Debt | <u>\$ 64,182,248 (b)</u> |
| Total Direct and Estimated Overlapping Debt | \$ 105,712,248 (b) |
| Direct Debt Ratio | |
| As a percentage of 2020 Taxable Assessed Valuation..... | 3.49 % |
| Direct and Estimated Overlapping Debt Ratio: | |
| As a percentage of 2020 Taxable Assessed Valuation..... | 8.89 % |
| Debt Service Fund Balance (as of September 23, 2020)..... | \$ 3,208,571 (c) |
| General Fund Balance (as of August 31, 2020) | \$ 7,129,180 |
| 2020 Debt Service Tax Rate per \$100 of Assessed Valuation | \$0.29 |
| Average Annual Debt Service Requirement (2021-2040) | \$ 2,523,299 (d) |
| Maximum Annual Debt Service Requirement (2030)..... | \$ 3,442,113 (d) |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2021-2040) at 95% Tax Collections Based on 2020 Taxable Assessed Valuation..... | \$0.23 |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2030) at 95% Tax Collections Based on 2020 Taxable Assessed Valuation..... | \$0.31 |
| Number of Single-Family Homes..... | 3,808 (e) |

-
- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2020, as provided by the Harris County Appraisal District. Such value includes \$160,390,729 of assessed valuation that remains uncertified and that is subject to protest, review, and downward adjustment prior to certification. See "TAX DATA" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
- (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in its Debt Service Fund. Balance reflects payment of all debt service due on the Outstanding Bonds in 2020.
- (d) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT - Debt Service Requirement Schedule."
- (e) Approximate number based on existing single-family connections in the District.

\$15,000,000

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

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

UNLIMITED TAX BONDS

SERIES 2020

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Fresh Water Supply District No. 61 (the "District") of its \$15,000,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

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

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

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

THE BONDS

General

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

The Bonds are dated November 1, 2020, with interest payable on March 1, 2021 (four months interest), at the rates shown on the inside cover page hereof, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or prior redemption. Interest on the Bonds initially accrues from November 1, 2020, and thereafter, from the most recent Interest Payment Date to which interest has been paid. Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months. The Bonds mature on September 1 of the years and in the amounts set forth on the inside cover page hereof. Principal of the Bonds will be payable at the corporate trust office of the Paying Agent/Registrar (herein defined), upon surrender of the Bonds for payment. Unless otherwise agreed between the Paying Agent/Registrar (hereinafter defined) and the owner(s) of the Bonds ("Bondholder(s)"), interest on the Bonds is payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar on or before the Interest Payment Date to the registered owners shown on the records of the Paying Agent/Registrar as of the close of business on the fifteenth (15th) day of the calendar month next preceding each Interest Payment Date (the "Record Date").

The Bonds mature on September 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on the inside cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 of principal amount or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York, in its nominee name of Cede & Co., pursuant to the book-entry system

described herein. No physical delivery of the Bonds will be made to the purchasers thereof. See “Book-Entry-Only System” below.

Source of Payment

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees and Appraisal District (herein defined) fees. Tax proceeds, after deduction for collection costs, will be placed in the District’s debt service fund and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds (herein defined), and additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees. The District has the authority to levy an annual ad valorem tax, without limit as to rate or amount, on all taxable property within the District for each year the Bonds are outstanding.

The Bonds, when issued, will constitute valid and binding obligations of the District. The Bonds are solely obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District.

Authority of Issuance

The Bonds are issued pursuant to: the “Bond Order; the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, as amended; an election held within the District and passed by a majority of the participating voters; and an order of the TCEQ.

The Bonds are the nineteenth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the “System”). At various elections held within the District, the District’s voters have authorized the District’s issuance of a total of \$105,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System of which \$30,000,000 may also be issued for refunding purposes. At an election held within the District on April 4, 1987, the District’s voters also authorized the District’s issuance of a total of \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for acquiring or constructing the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for acquiring or constructing the System or for refunding. See “Issuance of Additional Debt” below.

Outstanding Bonds

The District has previously issued its \$670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1967; \$355,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1971; \$1,800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1971-A; \$100,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1973; \$880,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977; \$4,070,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1979; \$2,800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1982; \$4,550,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1984; \$3,175,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985; \$3,120,000 Unlimited Tax Refunding Bonds, Series 1987; \$7,335,000 Unlimited Tax Refunding Bonds, Series 1991; \$3,030,000 Unlimited Tax Refunding Bonds, Series 1993; \$5,600,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1995; \$8,000,000 Unlimited Tax Refunding Bonds, Series 1998; \$4,670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1999; \$4,735,000 Unlimited Tax Bonds, Series 2000; \$4,150,000 Unlimited Tax Bonds, Series 2003; \$4,490,000 Unlimited Tax Bonds, Series 2004; \$4,260,000 Unlimited Tax Refunding Bonds, Series 2005; \$4,350,000 Unlimited Tax Bonds, Series 2005B; \$7,660,000 Unlimited Tax Bonds, Series 2007; \$5,435,000 Unlimited Tax Refunding Bonds, Series 2010; \$8,630,000 Unlimited Tax Bonds, Series 2011; \$8,295,000 Unlimited Tax Refunding Bonds, Series 2012; \$7,390,000 Unlimited Tax Refunding Bonds, Series 2016; \$11,250,000 Unlimited Tax Bonds, Series 2017, and \$8,540,000 Unlimited Tax

Refunding Bonds, Series 2019. Of such above-listed series of bonds previously issued by the District, \$26,530,000 principal amount remains outstanding as of September 2, 2020 (the "Outstanding Bonds").

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds. At various elections held within the District, the District's voters authorized the District's issuance of a total of \$105,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System of which \$30,000,000 may also be issued for refunding purposes. At an election held within the District on April 4, 1987, the District's voters also authorized the District's issuance of a total of \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District.

The Bonds are the nineteenth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for acquiring or constructing the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for acquiring or constructing the System or for refunding.

The District has the right to issue the aforementioned bonds without the necessity of further voter authorization. Before issuing any additional bonds for the System, the District would have to obtain approval of the Texas Commission on Environmental Quality ("TCEQ") for the issuance of such bonds and the projects to be financed thereby. In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds, revenue bonds, or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds, in addition to the refunding bonds described above, with additional voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds.

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

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time. Issuance of additional bonds or other subsequently authorized bond could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS - Future Debt."

Paying Agent/Registrar

The District has appointed Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, as the initial paying agent/registrar for the Bonds (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. Interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each Interest Payment Date by the Paying Agent/Registrar to the Bondholder at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date.

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Remedies in Event of Default

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. The District may not be placed into bankruptcy involuntarily. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies," and "- Bankruptcy Limitation to Registered Owners' Rights."

Registered Owners' Remedies

The Bond Order contains a covenant that while any part of the Bonds is outstanding, there shall be assessed, levied, and collected an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District, sufficient to pay principal of and interest on the Bonds when due and to pay the expenses necessary in collecting taxes. Texas law and the Bond Order provide that in the event that the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or

performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board of Directors of the District to observe and perform any covenant, obligation, or condition prescribed by the Bond Order. Such right is in addition to all other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default. Consequently, the remedy of mandamus is a remedy which may have to be relied upon from year to year by the Registered Owners. Even if the Registered Owners could obtain a judgment against the District, such judgment 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 in order to pay the principal of and interest on the Bonds. Certain traditional legal remedies also may not be available. The enforceability of the rights and remedies of the Registered Owners may be further limited by federal bankruptcy laws, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. See "INVESTMENT CONSIDERATIONS – Bankruptcy Limitation to Registered Owners' Rights."

Registration, Transfer and Exchange

In the event the Book-Entry-Only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of, the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Redemption Provisions

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or any date

thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC on behalf of the District in accordance with its procedures. See "THE BONDS – Book-Entry-Only System." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

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

- Mandatory Redemption -

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

\$2,715,000 Term Bonds Maturing on September 1, 2032

| Mandatory Redemption Date | Principal Amount |
|------------------------------|------------------|
| September 1, 2031 | \$1,340,000 |
| September 1, 2032 (Maturity) | \$1,375,000 |

\$4,325,000 Term Bonds Maturing on September 1, 2035

| Mandatory Redemption Date | Principal Amount |
|------------------------------|------------------|
| September 1, 2033 | \$1,405,000 |
| September 1, 2034 | \$1,440,000 |
| September 1, 2035 (Maturity) | \$1,480,000 |

\$3,070,000 Term Bonds Maturing on September 1, 2037

| Mandatory Redemption Date | Principal Amount |
|------------------------------|------------------|
| September 1, 2036 | \$1,515,000 |
| September 1, 2037 (Maturity) | \$1,555,000 |

\$4,890,000 Term Bonds Maturing on September 1, 2040

| Mandatory Redemption Date | Principal Amount |
|------------------------------|------------------|
| September 1, 2038 | \$1,590,000 |
| September 1, 2039 | \$1,630,000 |
| September 1, 2040 (Maturity) | \$1,670,000 |

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds of a maturity that must be mandatorily

redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for above, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Order. The principal amount of the Term Bonds of a maturity to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced, at the option of the District, by the principal amount of Term Bonds of such maturity which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

No Arbitrage

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

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided,

however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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.

Annexation and Consolidation

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

If the District is annexed, the City must assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. The District has concluded an agreement with the City pursuant to which the District may not be annexed by the City, without consent of the District, prior to 2035. See "Strategic Partnership Agreement" below. No representation is made concerning the eventual likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

A district (such as the District) has the legal authority to consolidate with other municipal utility 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). Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Strategic Partnership Agreement

The District entered into that certain Strategic Partnership Agreement dated effective March 31, 2005, with the City. The agreement was amended on December 13, 2010, and on November 22, 2013, and, as amended, said Strategic Partnership Agreement is hereinafter referred to as the "SPA." The SPA provides for the limited-purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to fifty percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District, without the District's consent, or commence any action to annex all or part of the District for full purposes. None of the amounts to be received by the District under the SPA are pledged to the payment of debt service on the Bonds.

Book-Entry-Only System

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing

corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will used as follows:

| <u>Construction Costs</u> | <u>District's Share</u> |
|--|-------------------------|
| A. Developer Contribution Items | |
| None | \$ <u> 0</u> |
| B. District Items | |
| 1. Water Plant No. 1 Rehabilitation | \$ 760,000 |
| 2. Water Plant No. 3 Rehabilitation | 1,423,000 |
| 3. Water Plant No. 3 Rehabilitation | 610,000 |
| 4. Water Plant No. 4 Rehabilitation | 803,000 |
| 5. Water Distribution System Rehabilitation | 1,200,000 |
| 6. Water Collection System Rehabilitation | 2,750,000 |
| 7. Lift Station Rehabilitation | 323,000 |
| 8. Wastewater Treatment Plant No. 1 Rehabilitation | 1,434,813 |
| 9. Wastewater Treatment Plant No. 2 Rehabilitation | 971,375 |
| 10. Detention Pond Rehabilitation | 200,000 |
| 11. Administration Building Parking Lot Expansion | 80,000 |
| 12. Contingencies (10% of Item Nos. 1-11) | 1,055,519 |
| 13. Engineering Fees (22% of Item Nos. 1-11) | 2,322,141 |
| Total District Items | <u>\$ 13,932,848</u> |
| Total Construction Costs | \$ 13,932,848 |
| <u>Non-Construction Costs</u> | |
| A. Legal Fees (2.0%) | \$ 305,000 |
| B. Fiscal Agent Fees (2.0%) | 190,000 |
| C. Interest | 0 |
| D. Bond Discount | 263,323 |
| E. Bond Issuance Expenses | 35,152 |
| F. Bond Application Report Costs | 40,000 |
| G. Attorney General Fees (0.1% or \$9,500 max.) | 9,500 |
| H. TCEQ Bond Issuance Fee (0.25%) | 37,500 |
| I. Contingency | <u>186,677</u> |
| Total Non-Construction Costs | <u>\$ 1,067,152</u> |
| Total Bond Issue Requirement | \$ 15,000,000 |

THE DISTRICT

Authority

The District was created as a conservation and reclamation district by the Harris County Commissioner's Court in 1967. On June 8, 1971, the District was granted authority to finance the construction of drainage facilities by virtue of a special act of the Texas Legislature, Acts 1971, 62nd Legislature. The District converted to a municipal utility district on July 23, 1975, by order of the Texas Water Rights Commission, predecessor to the TCEQ. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts (particularly Chapters 49 and 54, Texas Water Code). The District is empowered to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District, as well as solid waste disposal services. In addition, the District is empowered, if approved by the electorate and the TCEQ, to establish, operate and maintain a fire department, either independently or with certain other utility districts. The TCEQ exercises continuing supervisory jurisdiction over the District.

Description

The District is located in northwest Harris County, Texas, approximately 20 miles from the central business district of the City, and wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is located in Cypress-Fairbanks Independent School District. At the time of its creation, the District was made up of 395.7251 acres; subsequent annexations have resulted in the current area of the District of approximately 1,825.36 acres. The District consists of several noncontiguous tracts. Its general boundaries are Huffmeister Road to the west, Cypress-North Houston Road to the north, F.M. 1960 to the south, and Jones Road to the east. Elevations within the District range from 126 to 135 feet above mean sea level ("msl") and elevations in other areas range from 127 to 133 feet msl. White Oak Bayou traverses such area.

Management

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May of even-numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. All of the Directors currently reside or own land within the District.

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|---------------------|---------------------|
| Darrell A. Barroso | President | May 2022 |
| Lary J. Cangelose | Vice President | May 2024 |
| Mike Kelley | Secretary | May 2022 |
| Jon Morgan | Assistant Secretary | May 2024 |
| Ben A. Solis | Treasurer | May 2024 |

The District employs a general manager, assistant general manager, and 19 other full-time office and field employees, as well as contracts for certain necessary services, as set out below.

General Manager: The District's General Manager provides general management and operations supervision for the District. The General Manager, with the assistance of the Assistant General Manager, provides the general management for plant operations, field, and office employees.

Tax Assessor/Collector: The District's Tax Assessor/Collector is an in-house employee of the District. The Tax Assessor/Collector is responsible for the assessment and collection of taxes levied by the District.

District Funds Manager: The District contracts with Municipal Business Services to manage the Construction and Debt Service Funds.

Auditor: The District's annual financial statements for the fiscal year ending December 31, 2019, have been prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A."

Engineer: The consulting engineer for the District is Lockwood, Andrews & Newnam, Inc. ("Engineer").

Legal Counsel: The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

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

Financial Advisor: The District has engaged Robert W. Baird & Co. Incorporated as financial advisor (the "Financial Advisor") to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

DEVELOPMENT OF THE DISTRICT

Initial development in the District began in 1966. To date, approximately 1,693 acres of the District's 1,825 total acres have been developed as residential properties, commercial properties, schools, or churches.

Approximately 1,070 acres in the District have been developed as the following single-family residential subdivisions: Barwood, Sections 1 and 3; Country Oaks; Crossbend Village; Cypress Creek Forest, Section 1; Cypress Falls Estates; Cypress Stone Village; Fallbrook Greens, Sections 1-3; Falls at White Oak; Hastings Green, Sections 1 and 2; Meisterwood; Oak Cliff Place, Sections 1 and 2; Ravensway Lake; Signature Estates; Tower Oaks Meadows, Sections 1-4; Tower Oaks Reserve; White Oak Landing, Sections 2 and 3; Wortham Falls, Sections 1-3; and Wortham Landing Sections 1, 2, and 4. Approximately 3,808 homes have been constructed in said subdivisions.

Approximately 129 acres in the District have been developed to serve multi-family residential properties. Multi-family development in the District includes, but is not limited to, the following nine apartment complexes (2,092 total units): Morningside Green Apartments (176 units); Hastings Place Apartments (176 units); Aurora Place Apartments (168 units); Trails of Eldridge Apartments (392 units); Windsor Cypress Apartments (209 units); Landmark (313 units); Mansions at Hastings Green Family (231 units); Mansions at Hastings Green Senior (262 units); and Village at Cypress Corner (165 units).

Approximately 418 acres in the District have been developed for commercial purposes. The District contains over 300 commercial establishments, including large-scale retail such as Wal-Mart, Target, Home Depot, and Kroger, numerous restaurants, pharmacies, retail shops, medical and dental clinics, banking centers, gas stations, hotel/motel lodging, a Montessori school, and various auto repair and collision centers, among other commercial establishments.

The balance of the District's acreage consists of approximately 76 acres for schools and churches and approximately 132 acres for parks, rights-of-way, streets, detention ponds, and District facilities. All developable acreage in the District is served by water, sewer and drainage facilities.

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Outstanding Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District. Various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the District.

Bonded Indebtedness

| | | |
|---|----------------------|-----|
| 2020 Taxable Assessed Valuation..... | \$1,189,166,520 | (a) |
| Direct Debt | | |
| The Outstanding Bonds..... | \$ 26,530,000 | |
| The Bonds | <u>\$ 15,000,000</u> | |
| Total..... | \$ 41,530,000 | |
| Estimated Overlapping Debt | <u>\$ 64,182,248</u> | (b) |
| Total Direct and Estimated Overlapping Debt | \$ 105,712,248 | (b) |
| Direct Debt as Percentage of 2020 Taxable Assessed Valuation | 3.49 | % |
| Direct and Estimated Overlapping Debt as Percentage of 2020 Assessed Valuation..... | 8.89 | % |
| Debt Service Fund Balance (as of September 23, 2020)..... | \$ 3,208,571 | (c) |
| General Fund Balance (as of August 31, 2020) | \$ 7,129,180 | |

-
- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2020, as provided by the Harris County Appraisal District. Such value includes \$160,390,729 of assessed valuation that remains uncertified and that is subject to protest, review, and downward adjustment prior to certification. See "TAX DATA" and "TAXING PROCEDURES."
 - (b) See "Estimated Direct and Overlapping Debt Statement" below.
 - (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in its Debt Service Fund. Balance reflects payment of all debt service due on the Outstanding Bonds in 2020.

Estimated Direct and Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or *Texas Municipal Reports* published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the assessed valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

| Taxing Jurisdiction | Outstanding Debt August 31, 2020 | Overlapping | |
|--|-------------------------------------|-------------|----------------------|
| | | Percent | Amount |
| Cypress-Fairbanks Independent School District | \$2,971,210,000 | 1.87% | \$ 55,561,627 |
| Harris County | 1,867,957,125 | 0.22% | 4,109,506 |
| Harris County Department of Education | 6,320,000 | 0.22% | 13,904 |
| Harris County Flood Control District | 83,075,000 | 0.22% | 182,765 |
| Harris County Hospital District | 86,050,000 | 0.22% | 189,310 |
| Lone Star College System District | 544,355,000 | 0.55% | 2,993,953 |
| Port of Houston Authority | 514,174,397 | 0.22% | <u>1,131,184</u> |
| Total Estimated Overlapping Debt | | | \$ 64,182,248 |
| The District (a) | | | <u>\$ 41,530,000</u> |
| Total Direct & Estimated Overlapping Debt (a)..... | | | \$105,712,248 |

Debt Ratios

| | Percent of 2020 Assessed Taxable Value |
|---|---|
| Direct Debt (a) | 3.49% |
| Direct and Estimated Overlapping Debt (a) | 8.89% |

(a) Includes the Outstanding Bonds and the Bonds.

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District does not have the authority from the voters within the District to assess, levy and collect ad valorem taxes for operation and maintenance purposes.

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements of the Outstanding Bonds as well as the principal and interest requirements of the Bonds.

| Calendar Year | Outstanding Debt Service | Plus: The Bonds | | | Total Combined Debt Service |
|------------------|-----------------------------|-----------------|-------------|--------------|--------------------------------|
| | | Principal | Interest | Debt Service | |
| 2021 | \$3,004,364 | - | \$263,385 | \$263,385 | \$3,267,749 |
| 2022 | 3,006,544 | - | 316,063 | 316,063 | 3,322,607 |
| 2023 | 3,016,588 | - | 316,063 | 316,063 | 3,332,651 |
| 2024 | 3,021,100 | - | 316,063 | 316,063 | 3,337,163 |
| 2025 | 3,031,870 | - | 316,063 | 316,063 | 3,347,933 |
| 2026 | 3,049,448 | - | 316,063 | 316,063 | 3,365,511 |
| 2027 | 3,068,188 | - | 316,063 | 316,063 | 3,384,251 |
| 2028 | 3,087,365 | - | 316,063 | 316,063 | 3,403,428 |
| 2029 | 3,100,725 | - | 316,063 | 316,063 | 3,416,788 |
| 2030 | 3,126,050 | - | 316,063 | 316,063 | 3,442,113 |
| 2031 | - | \$1,340,000 | 316,063 | 1,656,063 | 1,656,063 |
| 2032 | - | 1,375,000 | 289,263 | 1,664,263 | 1,664,263 |
| 2033 | - | 1,405,000 | 261,763 | 1,666,763 | 1,666,763 |
| 2034 | - | 1,440,000 | 233,663 | 1,673,663 | 1,673,663 |
| 2035 | - | 1,480,000 | 204,863 | 1,684,863 | 1,684,863 |
| 2036 | - | 1,515,000 | 175,263 | 1,690,263 | 1,690,263 |
| 2037 | - | 1,555,000 | 143,069 | 1,698,069 | 1,698,069 |
| 2038 | - | 1,590,000 | 110,025 | 1,700,025 | 1,700,025 |
| 2039 | - | 1,630,000 | 74,250 | 1,704,250 | 1,704,250 |
| 2040 | - | 1,670,000 | 37,575 | 1,707,575 | 1,707,575 |
| Total | \$30,512,242 | \$15,000,000 | \$4,953,742 | \$19,953,742 | \$50,465,984 |

Average Annual Debt Service Requirement (2021-2040)\$2,523,299

Maximum Annual Debt Service Requirement (2030).....\$3,442,113

TAXING PROCEDURES

District Ability 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 sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy and collect such a tax from year to year as described more fully above under the caption "THE BONDS – Source of Payment." The Board would be authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have not authorized the levy of such a 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 herein.

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

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; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call 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 the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries, including, the surviving spouse of a disabled veteran who would have qualified for such an exemption if such exemption had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the

partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future. Currently, the District has no intention of taxing goods-in-transit personal property.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston (were it to annex the District), Harris County, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatements, which each entity will follow in granting tax abatements to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the

year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. The terms of all tax abatement agreements must be substantially the same. Currently the District has taken no action to grant any tax abatement, and it has no information regarding the intent of either Harris County or the City of Houston to designate any part of the area within the District 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 certified to the District's tax assessor by the Chief Appraiser, 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 addition, increases in the appraised value of residence homesteads are Constitutionally limited 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 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 that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural 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 years for agricultural use and taxes for the previous five years for open space land and timberland.

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

Reappraisal of Property

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor of Texas declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

Tax Payment Installments after Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the 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.

District and Taxpayer Remedies

The Property Tax Code 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.

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 establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions, and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, 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 is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described 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 the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis, beginning with the 2020 tax rate. For the 2020 tax year, the Board has determined that the District's classification is that of a Developed District under disaster declaration. The District cannot give any assurances as to what classification will be determined for tax years subsequent to 2020 or whether the District's future tax rates or financings of improvements and facilities will result in a new classification and new election calculation.

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 also 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 in writing 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 equal 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 continues to accrue during the period of deferral.

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are the personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. In addition, on January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each 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 other such taxing units. See "TAX DATA - Estimated Overlapping Taxes."

A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax

lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

[Remainder of Page Intentionally Left Blank]

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy, and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds, and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, debt service requirements, and available funds. The District levied a debt service tax of \$0.29 per \$100 of assessed valuation for 2020.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. The District voters have not authorized the levy of such a maintenance tax.

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical assessed valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

| <u>Tax Year</u> | <u>Assessed Valuation</u> | <u>Tax Rate</u> | <u>Adjusted Levy</u> | <u>Collections Current Year</u> | <u>Current Year Ended 9/30</u> | <u>Collections 08/31/20</u> |
|-----------------|---------------------------|-----------------|----------------------|---------------------------------|--------------------------------|-----------------------------|
| 2010 | \$703,210,572 | \$0.41 | \$2,883,163 | 98.46% | 2011 | 99.54% |
| 2011 | 716,778,867 | 0.39 | 2,795,438 | 99.05 | 2012 | 99.63 |
| 2012 | 706,280,212 | 0.37 | 2,613,237 | 96.88 | 2013 | 99.23 |
| 2013 | 790,411,563 | 0.35 | 2,766,440 | 97.84 | 2014 | 98.93 |
| 2014 | 846,694,406 | 0.34 | 2,878,761 | 97.77 | 2015 | 99.09 |
| 2015 | 921,471,228 | 0.33 | 3,040,855 | 98.17 | 2016 | 99.28 |
| 2016 | 986,231,570 | 0.32 | 3,155,941 | 97.36 | 2017 | 98.85 |
| 2017 | 1,020,437,756 | 0.31 | 3,163,357 | 97.36 | 2018 | 98.75 |
| 2018 | 1,076,148,149 | 0.30 | 3,228,444 | 98.42 | 2019 | 98.59 |
| 2019 | 1,139,672,265 | 0.29 | 3,305,050 | 94.83 | 2020 | 94.83 |

Analysis of Tax Base

The following table illustrates the composition of property located within the District during the past five years.

| <u>Type of Property</u> | <u>2020 Assessed Valuation (a)</u> | <u>2019 Assessed Valuation</u> | <u>2018 Assessed Valuation</u> | <u>2017 Assessed Valuation</u> | <u>2016 Assessed Valuation</u> |
|-------------------------|------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Land | \$350,971,769 | \$287,736,913 | \$286,314,559 | \$261,673,770 | \$257,155,970 |
| Improvements | 930,755,807 | 911,548,418 | 846,584,154 | 816,351,803 | 778,625,852 |
| Personal Property | 76,341,069 | 108,306,568 | 104,062,486 | 101,145,310 | 106,138,389 |
| Exemptions | (183,862,629) | (167,919,634) | (160,813,050) | (158,733,127) | (155,688,641) |
| Total | \$1,174,206,016 | \$1,139,672,265 | \$1,076,148,149 | \$1,020,437,756 | \$986,231,570 |

(a) Total 2020 assessed valuation differs from value shown elsewhere herein due to supplement of the 2020 appraisal rolls by the Appraisal District subsequent to original certification.

Principal Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2020:

| Taxpayer | Types of Property | 2020 Assessed Value |
|--|-------------------------------|------------------------|
| GWR Trails EP Owner LLC | Land & Improvements | \$35,646,550 |
| Landmark at Cypress Falls | Land & Improvements | 34,992,911 |
| Schumacher Windsor Cypress LLC et al | Land & Improvements | 21,479,073 |
| Wal Mart | Land, Improvements & Personal | 20,825,183 |
| MB Houston Eldridge Town Center LP | Land & Improvements | 15,987,774 |
| Hastings Poe LLC | Land & Improvements | 14,723,821 |
| Beck & Masten Pontiac GMC Inc. | Personal | 14,624,442 |
| Eldridge Crossing Ltd | Land & Improvements | 13,788,051 |
| Home Depot | Land, Improvements & Personal | 13,587,624 |
| 11810 Hammond LP | Land & Improvements | <u>13,053,944</u> |
| Principal Taxpayers Total | | \$198,709,373 |
| Principal Taxpayers Total as Percentage of 2020 Taxable Assessed Valuation of the District | | 16.71% |

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2019 taxes levied upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

| Taxing Jurisdiction | 2019 Tax Rate |
|---|-----------------|
| Harris County | \$0.407130 |
| Harris County Flood Control District | 0.027920 |
| Port of Houston Authority | 0.010740 |
| Harris County Hospital District | 0.165910 |
| Harris County Department of Education | 0.005000 |
| Lone Star College System District | 0.107800 |
| Cypress-Fairbanks Independent School District | 1.370000 |
| Harris County Emergency Services District No. 9 | 0.059800 |
| The District | <u>0.290000</u> |
| Estimated Total Tax Rate | \$2.444300 |

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation which would be required to meet certain debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District occurs beyond the District's taxable assessed valuation as of January 1, 2020. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and no sale of additional bonds by the District. As outlined above under the caption "Historical Values and Tax Collection History," the District has collected an average annual percentage of its property taxes in excess of 95% for the last five years.

| | |
|--|-------------|
| Average Annual Debt Service Requirement (2021-2040) | \$2,523,299 |
| Tax Rate of \$0.23 on the 2020 Taxable Assessed Valuation produces | \$2,598,329 |
| Maximum Annual Debt Service Requirement (2030)..... | \$3,442,113 |
| Tax Rate of \$0.31 on the 2020 Taxable Assessed Valuation produces | \$3,502,095 |

THE SYSTEM

Description of the System

The System is described below, based upon information from the Engineer:

- Water, Sewer, and Drainage Lines -

Proceeds of certain for the District's prior bond issues financed the construction of water, wastewater and drainage systems to serve approximately 1,070 acres of single-family lots; approximately 418 acres of commercial reserves; approximately 129 acres of multi-family residential; and approximately 208 acres for schools, churches, parks, rights-of-way and detention ponds.

- Drainage Channel Improvements -

Proceeds of certain for the District's prior bond issues were used to finance the construction of drainage improvements to White Oak Bayou and the Harris County Flood Control Ditch No. E132-00-00.

The improvements to White Oak Bayou removed from the White Oak Bayou 100-year flood plain all developable land that was previously within the 100-year flood plain within the District, with the exception of a small part of Hastings Green and Hastings Green Park.

- Water Supply -

The system currently consists of four water plants with five active water wells, with capacities of 1,000, 1,500, 1,300, 1,300, and 1,500 gallons per minute (gpm), booster pumps, storage tanks, two elevated storage tanks, hydro pneumatic tanks, chlorination equipment, emergency interconnects and appurtenances.

According to the Engineer, the District's water supply system currently has water well capacity, ground storage tank capacity, booster pump capacity and hydro pneumatic tank capacity adequate to serve the District up to 11,000 single-family equivalent connections. The District's existing elevated storage tank capacity is adequate to meet the District's System requirements. At ultimate build out, the District anticipates 8,377 connections, plus 2,606 connections from MUD 248 (hereinafter defined), plus 85 connections from Emerald Forest (hereinafter defined), for a total of 11,068 connections.

- Wastewater Facilities -

Proceeds of certain of the District's prior bond issues financed the District's pro rata share of wastewater treatment plant no. 1 with total capacity of 2,000,000 gallons per day (gpd) (the "Barwood WWTP"). Harris County Municipal Utility District No. 69 ("MUD 69") has contracted with the District for treatment of up to 625,000 gpd in the Barwood WWTP, leaving 1,375,000 gpd for the District.

Due to more stringent treatment standards required by the TCEQ, the Barwood WWTP capacity has been down rated to 1.6 MGD with MUD 69 retaining 0.5 mgd and the District retaining 1.1 mgd. According to the Engineer, the capacity available to the District is adequate for full development of the remaining properties within the Barwood subdivision, certain commercial development and approximately 38 acres of the Ravensway subdivision.

In addition, proceeds of certain for the District's prior bond issues were used to finance the construction of the District's share of the 3 million gpd wastewater treatment plant no. 2 (the "Hastings Green WWTP"). Harris County Municipal Utility District No. 222 ("MUD 222") has purchased 135,000 gpd of permanent wastewater treatment capacity in the Hastings Green WWTP, and Harris County Municipal Utility District No. 248 ("MUD 248") has purchased 141,750 gpd of permanent wastewater treatment capacity in the Hastings Green STP, the first and second phases of the 3 million gpd with 2.055 million gpd now owned by the District. The District's capacity in the two plants can provide service to approximately 10,015 single-family equivalent connections within the District. The District anticipates 8,377 connections at ultimate build out.

Contracts for Service with Others

- Water Supply and Waste Disposal Contract with MUD 69, dated June 11, 1973, as amended -

Water Supply and Waste Disposal Agreement dated June 11, 1973, entered into by and between the District and MUD 69. Under this agreement, the District provided water supply and continues to provide wastewater

treatment and disposal services to MUD 69. MUD 69 is obligated to properly maintain and repair all sewage lines and facilities within its boundaries, and the District is obligated to properly operate and maintain the remainder of the sewage treatment facilities. For wastewater treatment and disposal, MUD 69 is obligated to pay the District, on a monthly basis, per connection to MUD 69's waste collection system, an amount that is equal to \$0.50 less than the rate charged by the District per connection of like classification within its boundaries. The contract was renewed through December 31, 2053. The contract was amended to supply only wastewater treatment to MUD 69. The District no longer supplies water to MUD 69, except on an emergency basis.

- Emergency Water Supply Contract with Timberlake Improvement District ("Timberlake"), Dated November 16, 1977 as amended, September 9, 1980 -

Pursuant to this Contract, each district is to provide emergency water supply to the other for a period of 40 years from the date of the Contract. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 15 days. Timberlake is obligated to pay all costs associated with interconnecting the District's water systems, including a locked cut-off valve required to remain closed in the absence of an "emergency." Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons, and the Contract is to remain in force for 40 years.

- Emergency Water Supply Contract with MUD 69, Dated December 18, 1982, as amended, November 29, 2001 -

Pursuant to this Contract, each district is to provide emergency water supply to the other. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 20 days. Lines to interconnect the District's water systems were in existence at the time of the Contract execution. Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons and the Contract is to remain in force for 10 year periods unless cancelled a year in advance.

- Emergency Water Supply Contract with Northwest Harris County Municipal Utility District No. 29 ("NWHCMUD 29") Dated February 10, 1999 -

Pursuant to this Contract, each district is to provide emergency water supply to the other. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 20 days. Lines to interconnect the District's water systems were in existence at the time of the Contract execution. Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons and the Contract is to remain in force for 10 year periods unless cancelled a year in advance.

- Emergency Water Supply Contract with Harris County Municipal MUD No. 222 Dated December 16, 1992 -

Pursuant to this Contract, each district is to provide emergency water supply to the other for a period of 40 years from the date of the Contract. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 10 days. Water supplied under this contract is sold for \$1.00 per 1,000 gallons, for either district.

- Water Service Agreement with Emerald Forest Utility District ("Emerald Forest") dated July 23, 1977 -

On July 23, 1997, and through the third amendment, the District has entered into a permanent water supply agreement with Emerald Forest. The total water supply is 35,000 gallons per day.

- Permanent Water Supply Contract with Harris County Municipal Utility District No. 248 -

On August 30, 2000, the District entered into a long-term water supply agreement with MUD 248 which allows MUD 248 to purchase 400 equivalent single family connections of water supply resulting in a water supply of 140,000 gallons per day. MUD 248 also has an option to purchase existing additional capacity in the District's water system up to a maximum of 280,000 gallons per day of water supply. By six subsequent

amendments to the water supply agreement, MUD 248 obtained the right to purchase 2,500 equivalent single-family connections of water supply capacity, all 2,500 of which have been purchased by MUD 248.

On February 12, 2020, the District entered into a separate water supply agreement with MUD 248, whereby MUD 248 purchased 116 equivalent single family connections, in addition to the 2,500 connected previously purchased by MUD 248 by prior agreement.

Of the total 2,616 equivalent single-family connections available as a result of the above agreements, MUD 248 has purchased all equivalent single-family connections. The agreement dated February 12, 2020, allows MUD 248 the option to purchase up to 356 additional equivalent single family connections for a total capacity of 2,972 connections in the District's water supply system. To date, MUD 248 has not exercised its option to purchase any such additional capacity.

- Contracts for Financing, Construction and
Operation of Regional Wastewater Treatment Facility with MUD 222 and MUD 248 -

The District has entered into a series of agreements (the "Contracts") for providing for expansion of the Hastings Green STP to accommodate regional wastewater treatment by the District to the property located in MUD 222 and MUD 248. The Contracts originally called for the expansion of the 1.5 mgd Hastings Green STP into a 5 mgd wastewater treatment regional plant. The 2002 expansion increased the plant treatment capacity from 1.5 mgd to 3 mgd. Both MUD 222 and MUD 248 have purchased permanent capacity in the plant (see "Wastewater Facilities"). Should MUD 222, MUD 248 or the District require additional capacity, the Contracts provide for subsequent expansion of the Hastings Green STP and for cost sharing among the districts requesting additional capacity. By supplemental contracts dated September 25, 2002, March 12, 2003 (amended December 8, 2004), and June 10, 2020, MUD 248 has purchased 2,606 equivalent single-family connections of wastewater capacity in the STP. The agreement dated June 10, 2020 allows MUD 248 the option to purchase up to 366 additional equivalent single family connections for a total capacity of 2,972 connections in the District's wastewater treatment system. To date, MUD 248 has not exercised the option to purchase any additional capacity.

Subsidence and Conversion to Surface Water Supply

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

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

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of Phase I of the Surface Water Facilities is being paid through the pumpage fee. For future phases of the Surface Water Facilities, current rules of the Water Authority allow the District to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by the District through the issuance of bonds of which \$1,535,970,000 principal amount remains outstanding. The Water Authority may issue more bonds in the future.

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

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

[Remainder of Page Intentionally Left Blank]

Operating History

The following is a summary of the District's operating fund for the previous five fiscal years. The figures below were obtained from the District's annual audited financial reports, reference to which is hereby made. See "APPENDIX A."

| <u>Revenues</u> | For the Fiscal Year Ended December 31 | | | | |
|------------------------------------|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Water Service | \$936,906 | \$991,363 | \$931,395 | \$923,491 | \$984,804 |
| Wastewater Service | 2,305,953 | 2,307,234 | 2,334,959 | 2,335,420 | 2,372,358 |
| Regional Water Authority Fee | 2,470,393 | 2,288,384 | 1,888,555 | 1,604,918 | 1,458,256 |
| Sales Tax Revenues | 1,119,902 | 1,139,429 | 1,103,640 | 1,124,010 | 1,133,895 |
| Penalty and Interest | 53,863 | 54,472 | 50,304 | 49,759 | 73,887 |
| Tap Connection and Inspection Fees | 56,344 | 139,018 | 61,453 | 258,605 | 285,275 |
| Miscellaneous Revenues | 385,749 | 344,215 | 346,561 | 426,738 | 394,149 |
| TOTAL REVENUES | \$7,329,110 | \$7,264,115 | \$6,716,867 | \$6,722,941 | \$6,702,624 |
| | | | | | |
| <u>Expenditures</u> | | | | | |
| Personnel | \$1,998,741 | \$1,876,891 | \$1,777,914 | \$1,618,616 | \$1,574,231 |
| Professional Fees | 413,193 | 337,269 | 322,280 | 346,659 | 202,779 |
| Contracted Services | 15,221 | 20,481 | 12,114 | 15,922 | 14,896 |
| Utilities | 738,557 | 676,268 | 906,907 | 986,166 | 975,817 |
| Regional Water Auth. Assessment | 2,701,703 | 2,548,682 | 2,113,830 | 1,790,969 | 1,691,860 |
| Repairs and Maintenance | 638,222 | 594,890 | 526,347 | 678,380 | 712,794 |
| Other | 704,682 | 716,100 | 696,885 | 814,463 | 707,804 |
| Capital Outlay | 117,758 | 88,594 | 80,729 | 65,416 | 1,137,347 |
| TOTAL EXPENDITURES | \$7,328,077 | \$6,859,175 | \$6,437,006 | \$6,316,591 | \$7,017,528 |

[Remainder of Page Intentionally Left Blank]

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors: Development in the District is substantially complete, but maintenance of taxable values in the District is related to the vitality of the residential housing industry in the Greater Houston Metropolitan Area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices, credit availability and consumer demand. Further declines in the price of oil could adversely affect job stability, wages, and salaries, thereby negatively affecting the demand for housing and the values of existing homes. If the District were to experience a significant number of residential foreclosures, the value of all homes in the District could be adversely affected. The District includes a number of large scale retail taxpayers. If any such retailers were to cease operation, such facilities may be difficult to re-lease or re-purpose, resulting in decreases in the assessed values thereof. See "DEVELOPMENT OF THE DISTRICT."

Maximum Impact on District Tax Rate: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The taxable assessed valuation of all taxable property located with the District as of January 1, 2020, is \$1,189,166,520. After issuance of the Bonds, the maximum annual debt service requirement of the Outstanding Bonds and the Bonds will be \$3,442,113 (2030), and the average annual debt service requirement of the Outstanding Bonds and the Bonds will be \$2,523,299 (2021–2040). Based on the District's taxable assessed valuation as of January 1, 2020, no use of funds on hand, and a tax collections rate of 95%, a tax rate of \$0.31 per \$100 assessed valuation would be necessary to pay the maximum annual debt service requirement, and a tax rate of \$0.23 per \$100 assessed valuation would be necessary to pay the average annual debt service requirement. See "DISTRICT DEBT" and "TAX DATA."

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of improvements within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Recent Extreme Weather: 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, including the District, has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to representatives of the District, there were approximately 130 homes within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey. Furthermore, according to representatives of the District, there was no damage to the District’s utility systems or interruption of service due to Hurricane Harvey. The Gulf Coast region where the District is located is subject to occasional destructive weather events, and there is no assurance that the District will not suffer damages from such destructive weather events in the future.

If a future hurricane (or any other natural disaster) 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.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the 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.

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.

Infectious Disease Outlook – COVID-19

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State

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

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

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

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

Dependence on the Oil and Gas Industry

Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation’s oil trading. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact the businesses of taxpayers and the property values in the District, resulting in less local tax revenue. Texas may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in Texas and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted.

Tax Collections and Foreclosure Remedies

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

and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies

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

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

The District may not be placed into bankruptcy involuntarily.

Marketability of the Bonds

The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be greater than the difference between the bid and asked price of bonds of

comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold and traded in the secondary market.

Competitive Nature of Houston Residential Housing Markets

The residential housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that the construction of improvements, other than those which currently exist within the District, will be initiated or completed. The likelihood of the construction of future residential improvements is affected by most of the factors discussed in this section, and such likelihood is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Future Debt

At various elections held within the District, the District's voters authorized the District's issuance of a total of \$105,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System of which \$30,000,000 may also be issued for refunding purposes. At an election held within the District on April 4, 1987, the District's voters also authorized the District's issuance of a total of \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District.

The Bonds are the nineteenth series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing the System. The District has also issued nine series of unlimited tax bonds for refunding purposes. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for acquiring or constructing the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for acquiring or constructing the System or for refunding.

In the Bond Order, the District has reserved the right to issue the remaining principal amounts of such authorized but unissued bonds as well as any additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds authorized for waterworks, sanitary sewer and drainage facilities, and for refunding purposes which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The District's Engineer estimates that authorized bonds which will remain unissued, after issuance of the Bonds, will be adequate to finance the construction of all water, sewer and drainage facilities needed to provide service to all of the currently undeveloped portions of the District.

Future and Proposed Legislation

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

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

Approval of the Bonds

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

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

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

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s

April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ has developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB Area redesignation request under the 1997 Ozone Standards on September 5, 2018.

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

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

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

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

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

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

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

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 on June 20, 2020, and is the subject of ongoing litigation.

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

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

Bond Insurance Risk Factors

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

acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the bond insurer chooses to pay such amounts at an earlier date.

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

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

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

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

Neither the District or the Initial Purchaser (hereinafter defined) have made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the bond insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" herein for further information provided by the bond insurer and the Policy, which includes further instructions for obtaining current financial information concerning the bond insurer.

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General of Texas has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District.

Delivery of the Bonds is also subject to delivery of the legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District, to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also state that interest on the bonds is excludable from gross

income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P., has reviewed the information appearing in this Official Statement under the captions "THE BONDS (except "Book-Entry-Only System")," "THE DISTRICT - Authority," and "- Attorney," "TAXING PROCEDURES," "THE SYSTEM - Contracts for Service with Others," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein.

Bond Counsel has not, however, independently verified any of the other 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 such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein.

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

The District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

TAX MATTERS

Tax Exemption

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

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and

Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

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

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit.

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

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year ("Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

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

Not Qualified Tax-Exempt Obligations

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB.

The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the heading “DISTRICT DEBT,” “TAX DATA,” and “APPENDIX A.” The District will update and provide this information to the MSRB within six months after the end of each fiscal year. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents on the EMMA system, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if such audit is completed by the required time. If audited financial statements are not available by the required time, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in “APPENDIX A” or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation. The District’s current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or an obligated person, any of which affect bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District or an obligated person, any of which reflect financial difficulties. The term

“financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. 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 information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and

engineering and other related reports set forth herein are included 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.

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT - Description" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of the Engineer as expert in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the District's Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the authority of the Tax Assessor/Collector as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of property appraisal.

The information contained in this Official Statement relating to the District's financial statements, in particular the information in "APPENDIX A," has been provided by the Auditor and has been included herein in reliance upon the Auditor's authority and knowledge concerning the matters described herein.

Updating of 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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notify the District in writing 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Certification as to Official Statement

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Harris County Fresh Water Supply District No. 61 as of the date shown on the first page hereof.

/s/ Darrell A. Barroso
President, Board of Directors
Harris County Fresh Water Supply District No. 61

ATTEST:

/s/ Mike Kelley
Secretary, Board of Directors
Harris County Fresh Water Supply District No. 61

APPENDIX A
Financial Statements of the District

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-7 |
| BASIC FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET | 8-11 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION | 12 |
| STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | 13-14 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES | 15 |
| NOTES TO THE FINANCIAL STATEMENTS | 16-34 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND | 36 |
| SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS | 37 |
| SCHEDULE OF DISTRICT CONTRIBUTIONS | 38 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 39 |
| SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE | |
| NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements) | |
| SERVICES AND RATES | 41-43 |
| GENERAL FUND EXPENDITURES | 44-45 |
| INVESTMENTS | 46 |
| TAXES LEVIED AND RECEIVABLE | 47-48 |
| LONG-TERM DEBT SERVICE REQUIREMENTS | 49-54 |
| CHANGE IN LONG-TERM BOND DEBT | 55-56 |
| COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS | 57-60 |
| BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS | 61-62 |

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Fresh Water
Supply District No. 61
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Fresh Water Supply District No. 61 (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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Harris County Fresh Water
Supply District No. 61

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 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 the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 22, 2020

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Management's discussion and analysis of Harris County Fresh Water Supply District No. 61's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$32,739,198 as of December 31, 2019.

A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

| | <u>Summary of Changes in the Statement of Net Position</u> | | |
|---|--|----------------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Current and Other Assets | \$ 24,509,539 | \$ 26,590,284 | \$ (2,080,745) |
| Capital Assets (Net of Accumulated Depreciation) | <u>41,615,219</u> | <u>41,444,636</u> | <u>170,583</u> |
| Total Assets | <u>\$ 66,124,758</u> | <u>\$ 68,034,920</u> | <u>\$ (1,910,162)</u> |
| Deferred Outflows of Resources | <u>\$ 257,701</u> | <u>\$ 117,546</u> | <u>\$ 140,155</u> |
| Long -Term Liabilities | \$ 26,658,347 | \$ 28,735,892 | \$ 2,077,545 |
| Other Liabilities | <u>3,646,680</u> | <u>3,768,912</u> | <u>122,232</u> |
| Total Liabilities | <u>\$ 30,305,027</u> | <u>\$ 32,504,804</u> | <u>\$ 2,199,777</u> |
| Deferred Inflows of Resources | <u>\$ 3,338,234</u> | <u>\$ 3,225,103</u> | <u>\$ (113,131)</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 21,927,773 | \$ 21,557,220 | \$ 370,553 |
| Restricted | 3,348,385 | 3,452,887 | (104,502) |
| Unrestricted | <u>7,463,040</u> | <u>7,412,452</u> | <u>50,588</u> |
| Total Net Position | <u>\$ 32,739,198</u> | <u>\$ 32,422,559</u> | <u>\$ 316,639</u> |

The following table provides a summary of the District's operations for the years ended December 31, 2019, and December 31, 2018. The District's net position increased by \$316,639, accounting for a 1.0% growth in net position.

| | <u>Summary of Changes in the Statement of Activities</u> | | |
|---------------------------------|--|----------------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 3,123,919 | \$ 3,144,487 | \$ (20,568) |
| Charges for Services | 5,904,645 | 5,846,941 | 57,704 |
| Other Revenues | <u>1,918,085</u> | <u>2,192,152</u> | <u>(274,067)</u> |
| Total Revenues | <u>\$ 10,946,649</u> | <u>\$ 11,183,580</u> | <u>\$ (236,931)</u> |
| Expenses for Services | <u>10,630,010</u> | <u>9,369,261</u> | <u>(1,260,749)</u> |
| Change in Net Position | \$ 316,639 | \$ 1,814,319 | \$ (1,497,680) |
| Net Position, Beginning of Year | <u>32,422,559</u> | <u>30,608,240</u> | <u>1,814,319</u> |
| Net Position, End of Year | <u>\$ 32,739,198</u> | <u>\$ 32,422,559</u> | <u>\$ 316,639</u> |

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2019, were \$19,586,487, a decrease of \$2,154,928 from the prior year.

The General Fund fund balance increased by \$1,033, primarily due to property tax and service revenues exceeding operating costs during the current fiscal year.

The Debt Service Fund fund balance decreased by \$34,477, primarily due to the structure of the District's outstanding debt and the sales of Series 2019 Refunding bonds.

The Capital Projects Fund fund balance decreased by \$2,121,484 due to the use of bond proceeds received in the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$180,637 less than budgeted revenues. Actual expenditures were \$303,422 more than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of December 31, 2019, total \$41,615,219 (net of accumulated depreciation) and include land, buildings, trucks and equipment as well as the water and wastewater systems. Significant capital asset activity includes the, purchase of a 2019 Ford F-550, a tractor, sanitary sewer rehabilitation, phases 4 and 5 and utility relocating. Additional information on the District's capital assets can be found in Note 6 of this report.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|---------------|---------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 3,806,407 | \$ 3,806,407 | \$ |
| Construction in Progress | 332,201 | 1,015,647 | (683,446) |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Water System | 16,932,584 | 17,091,423 | (158,839) |
| Wastewater System | 18,732,732 | 17,714,501 | 1,018,231 |
| Buildings | 1,683,615 | 1,735,433 | (51,818) |
| Trucks and Equipment | 127,680 | 81,225 | 46,455 |
| Total Net Capital Assets | \$ 41,615,219 | \$ 41,444,636 | \$ 170,583 |

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

LONG-TERM DEBT ACTIVITY

At year-end, the District had bond debt payable of \$28,790,000. The changes in the debt position of the District during the fiscal year ended December 31, 2019, are summarized as follows:

| | |
|--------------------------------------|----------------------|
| Bond Debt Payable, January 1, 2019 | \$ 31,105,000 |
| Add: Bond Sale Series 2019 Refunding | 8,540,000 |
| Less: Bond Principal Refunding | 8,390,000 |
| Less: Bond Principal Paid | <u>2,465,000</u> |
| Bond Debt Payable, December 31, 2019 | <u>\$ 28,790,000</u> |

The District's Series 2011 and Series 2012 Refunding bonds have an underlying rating of "A" by Standard & Poor's and the Series 2017 and Series 2019 Refunding bonds have an underlying rating of "A1" by Moody's. The Series 2011, Series 2012 Refunding and Series 2019 Refunding bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2017 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual. The above ratings reflect all changes through December 31, 2019.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Fresh Water Supply District No. 61, c/o Smith, Murdaugh, Little & Bonham, LLP, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2019

| | General Fund | Debt Service Fund |
|--|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 7,227,854 | \$ 1,503,553 |
| Investments | | 2,303,860 |
| Receivables: | | |
| Property Taxes | | 2,948,306 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts | 436,971 | |
| Accrued Interest | | 495 |
| Other | | 3,179 |
| Due from Other Funds | 571,811 | 23,235 |
| Prepaid Costs | 28,537 | |
| Due from Other Governmental Units | 74,722 | |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 8,339,895 | \$ 6,782,628 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows - Pensions | \$ | \$ |
| Deferred Charges on Refunding Bonds | | |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | \$ - 0 - | \$ - 0 - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 8,339,895 | \$ 6,782,628 |

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

| <u>Capital Projects Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|----------------------------------|----------------------|----------------------|--------------------------------------|
| \$ 346,434 | \$ 9,077,841 | \$ | \$ 9,077,841 |
| 9,419,424 | 11,723,284 | | 11,723,284 |
| | 2,948,306 | | 2,948,306 |
| | 436,971 | 198,734 | 198,734 |
| | 495 | | 436,971 |
| | 3,179 | | 495 |
| 1,500 | 596,546 | (596,546) | 3,179 |
| | 28,537 | 17,470 | 46,007 |
| | 74,722 | | 74,722 |
| | | 3,806,407 | 3,806,407 |
| | | 332,201 | 332,201 |
| | | 37,476,611 | 37,476,611 |
| <u>\$ 9,767,358</u> | <u>\$ 24,889,881</u> | <u>\$ 41,234,877</u> | <u>\$ 66,124,758</u> |
| \$ | \$ | \$ 101,246 | \$ 101,246 |
| | | 156,455 | 156,455 |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ 257,701</u> | <u>\$ 257,701</u> |
| <u>\$ 9,767,358</u> | <u>\$ 24,889,881</u> | <u>\$ 41,492,578</u> | <u>\$ 66,382,459</u> |

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

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 410,510 | \$ |
| Accrued Interest Payable | | |
| Due to Other Funds | 23,235 | 1,500 |
| Due to Taxpayers | | 36 |
| Security Deposits | 546,569 | |
| Accrued Interest at Time of Sale | | 3,272 |
| Net Pension Liability | | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 980,314 | \$ 4,808 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ | \$ 3,625,360 |
| Deferred Inflows - Pensions | | |
| TOTAL DEFERRED INFLOWS OF RESOURCES | \$ - 0 - | \$ 3,625,360 |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Costs | \$ 28,537 | \$ |
| Restricted for Authorized Construction: | | |
| Restricted for Debt Service | | 3,152,460 |
| Unassigned | 7,331,044 | |
| TOTAL FUND BALANCES | \$ 7,359,581 | \$ 3,152,460 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 8,339,895 | \$ 6,782,628 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|--------------------------|----------------------|------------------------|------------------------------|
| \$ 121,101 | \$ 531,611 | \$ | \$ 531,611 |
| | | 305,141 | 305,141 |
| 571,811 | 596,546 | (596,546) | |
| | 36 | | 36 |
| | 546,569 | | 546,569 |
| | 3,272 | (3,272) | |
| | | 3,323 | 3,323 |
| | | 2,260,000 | 2,260,000 |
| | | 26,658,347 | 26,658,347 |
| <u>\$ 692,912</u> | <u>\$ 1,678,034</u> | <u>\$ 28,626,993</u> | <u>\$ 30,305,027</u> |
| \$ | \$ 3,625,360 | \$ (299,060) | \$ 3,326,300 |
| | | 11,934 | 11,934 |
| <u>\$ - 0 -</u> | <u>\$ 3,625,360</u> | <u>\$ (287,126)</u> | <u>\$ 3,338,234</u> |
| \$ | \$ 28,537 | \$ (28,537) | \$ |
| 9,074,446 | 9,074,446 | (9,074,446) | |
| | 3,152,460 | (3,152,460) | |
| | 7,331,044 | (7,331,044) | |
| <u>\$ 9,074,446</u> | <u>\$ 19,586,487</u> | <u>\$ (19,586,487)</u> | <u>\$ - 0 -</u> |
| <u>\$ 9,767,358</u> | <u>\$ 24,889,881</u> | | |
| | | \$ 21,927,773 | \$ 21,927,773 |
| | | 3,348,385 | 3,348,385 |
| | | 7,463,040 | 7,463,040 |
| | | <u>\$ 32,739,198</u> | <u>\$ 32,739,198</u> |

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

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds \$ 19,586,487

Amounts reported for governmental activities in the Statement of Net Position are different because:

Prepaid bond insurance in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 17,470

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 41,615,219

Portions of the change in net pension asset that are not immediately recognized as pension expense are recorded as deferred outflows and inflows of resources. 85,989

The difference between the net carrying amount of refunded bonds and the reacquisition price is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 156,455

Deferred inflows of resources related to property tax revenues and uncollected penalty and interest receivables on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. 497,794

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

| | | |
|-------------------------------|---------------------|---------------------|
| Accrued Interest Payable | \$ (301,869) | |
| Bonds Payable Within One Year | (2,260,000) | |
| Bonds Payable After One Year | <u>(26,658,347)</u> | <u>(29,220,216)</u> |

Total Net Position - Governmental Activities \$ 32,739,198

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

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| REVENUES | | |
| Property Taxes | \$ | \$ 3,191,313 |
| Water Service | 936,906 | |
| Wastewater Service | 2,305,953 | |
| Regional Water Authority Fees | 2,470,393 | |
| Sales Tax Revenue | 1,119,902 | |
| Penalty and Interest | 53,863 | 80,043 |
| Tap Connection and Inspection Fees | 56,344 | |
| Investment Revenues | | 74,118 |
| Miscellaneous Revenues | 385,749 | 47,703 |
| TOTAL REVENUES | \$ 7,329,110 | \$ 3,393,177 |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Personnel | \$ 1,998,741 | \$ |
| Professional Fees | 413,193 | 29,505 |
| Contracted Services | 15,221 | 91,144 |
| Utilities | 738,557 | |
| Regional Water Authority Assessment | 2,701,703 | |
| Repairs and Maintenance | 638,222 | |
| Depreciation | | |
| Other | 704,682 | 16,088 |
| Capital Outlay | 117,758 | |
| Debt Service: | | |
| Bond Principal | | 2,465,000 |
| Bond Interest | | 735,792 |
| Bond Issuance Costs | | 299,746 |
| TOTAL EXPENDITURES/EXPENSES | \$ 7,328,077 | \$ 3,637,275 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES | \$ 1,033 | \$ (244,098) |
| OTHER FINANCING SOURCES (USES) | | |
| Long-Term Debt Issued | \$ | \$ 8,540,000 |
| Payment to Refunded Bond Escrow Agent | | (8,500,183) |
| Bond Discount | | (74,905) |
| Bond Premium | | 244,709 |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ - 0 - | \$ 209,621 |
| NET CHANGE IN FUND BALANCES | \$ 1,033 | \$ (34,477) |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - JANUARY 1, 2019 | 7,358,548 | 3,186,937 |
| FUND BALANCES/NET POSITION - DECEMBER 31, 2019 | \$ 7,359,581 | \$ 3,152,460 |

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

| Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--------------------------|-----------------------|-----------------------|----------------------------|
| \$ | \$ 3,191,313 | \$ (67,394) | \$ 3,123,919 |
| | 936,906 | | 936,906 |
| | 2,305,953 | | 2,305,953 |
| | 2,470,393 | | 2,470,393 |
| | 1,119,902 | | 1,119,902 |
| | 133,906 | 1,143 | 135,049 |
| | 56,344 | | 56,344 |
| 225,988 | 300,106 | | 300,106 |
| 48,625 | 482,077 | 16,000 | 498,077 |
| <u>\$ 274,613</u> | <u>\$ 10,996,900</u> | <u>\$ (50,251)</u> | <u>\$ 10,946,649</u> |
| \$ | \$ 1,998,741 | \$ (85,989) | \$ 1,912,752 |
| | 442,698 | | 442,698 |
| | 106,365 | | 106,365 |
| | 738,557 | | 738,557 |
| | 2,701,703 | | 2,701,703 |
| | 638,222 | 894,709 | 1,532,931 |
| | 721,556 | 1,463,777 | 1,463,777 |
| 786 | 721,556 | | 721,556 |
| 2,395,311 | 2,513,069 | (2,513,069) | |
| | 2,465,000 | (2,465,000) | |
| | 735,792 | (25,867) | 709,925 |
| | 299,746 | | 299,746 |
| <u>\$ 2,396,097</u> | <u>\$ 13,361,449</u> | <u>\$ (2,731,439)</u> | <u>\$ 10,630,010</u> |
| <u>\$ (2,121,484)</u> | <u>\$ (2,364,549)</u> | <u>\$ 2,681,188</u> | <u>\$ 316,639</u> |
| \$ | \$ 8,540,000 | \$ (8,540,000) | \$ |
| | (8,500,183) | 8,500,183 | |
| | (74,905) | 74,905 | |
| | 244,709 | (244,709) | |
| <u>\$ - 0 -</u> | <u>\$ 209,621</u> | <u>\$ (209,621)</u> | <u>\$ - 0 -</u> |
| \$ (2,121,484) | \$ (2,154,928) | \$ 2,154,928 | \$ |
| | | 316,639 | 316,639 |
| 11,195,930 | 21,741,415 | 10,681,144 | 32,422,559 |
| <u>\$ 9,074,446</u> | <u>\$ 19,586,487</u> | <u>\$ 13,152,711</u> | <u>\$ 32,739,198</u> |

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

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | |
|--|----------------|
| Net Change in Fund Balances - Governmental Funds | \$ (2,154,928) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | (67,394) |
| Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. | 1,143 |
| The changes in the net pension liability as well as deferred inflows and outflows of resources - pension are recorded as pension expense in the government-wide financial statements. Compensated Absences are reported as a liability in the Statement of Net Position. Therefore, an expense is recorded in the Statement of Activities. | 85,989 |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | (1,463,777) |
| Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | 1,634,360 |
| Governmental funds report bond premiums and discounts as other financing sources/uses in the year received/paid. However, in the Statement of Net Position, bond premiums and discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. | (169,804) |
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | 2,465,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | 25,867 |
| Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position. | (8,540,000) |
| Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position. | 8,500,183 |
| Change in Net Position - Governmental Activities | \$ 316,639 |

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

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1. CREATION OF DISTRICT

Harris County Fresh Water Supply District No. 61 was created by an order of Commissioner's Court of Harris County, Texas, on May 22, 1967. The District was reorganized as a Municipal Utility District on July 23, 1975, in accordance with the Texas Water Code, Chapter 54. The Board of Directors held its first meeting on May 25, 1967, and the first bonds were sold on August 10, 1967. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "Commission"). The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Water Commission and other governmental entities having jurisdiction; to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- * Net Investment Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- * Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- * Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund – To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Debt Service Fund – To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include 2018 taxes collected during the period October 1, 2018, to December 31, 2019. In addition, taxes collected from January 1, 2019, to December 31, 2019 for the 2017 and prior tax levies are included in revenue. The 2019 tax levy has been fully deferred.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|-------------------------|-------|
| Buildings | 40 |
| Water System | 10-45 |
| Wastewater System | 10-45 |
| Machinery and Equipment | 5-20 |

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has 19 full-time employees and one part-time employee. The District has established a Section 457 Deferred Compensation arrangement for its employees. Each employee may elect to defer a portion of their salary. Effective January 1, 2018, the District entered into pension plan with the Texas County and District Retirement System (TCDRS). See Note 12. The District provides neither administrative services nor investment advice to the plans and, therefore, no fiduciary relationship exists between the District and these plans. The District has elected to pay Social Security for its employees. The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only. Directors do not participate in the pension plan.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

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

Unassigned: all other spendable amounts in the General Fund.

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

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. LONG-TERM DEBT

| | Series 2011 | Refunding Series 2012 | Refunding Series 2016 |
|---|---------------------------|---------------------------|---------------------------|
| Amount Outstanding – December 31, 2019 | \$ 1,315,000 | \$ 2,235,000 | \$ 5,450,000 |
| Interest Rates | 2.80%-3.10% | 3.00% | 1.92% |
| Maturity Dates – Serially Beginning/Ending | September 1, 2020/2022 | September 1, 2020/2022 | September 1, 2020/2028 |
| Interest Payment Dates | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 |
| Callable Dates | September 1, 2019* | September 1, 2019* | September 1, 2024* |
| | | Series 2017 | Refunding Series 2019 |
| Amount Outstanding – December 31, 2019 | | \$ 11,250,000 | \$ 8,540,000 |
| Interest Rates | | 2.00% - 3.00% | 2.00% - 4.00% |
| Maturity Dates – Serially Beginning/Ending | | September 1, 2020/2030 | September 1, 2020/2030 |
| Interest Payment Dates | | March 1/ September 1 | March 1/ September 1 |
| Callable Dates | | September 1, 2025* | September 1, 2025* |

* Or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Series 2016 Refunding term bonds due September 1, 2028, are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on September 1 in the years and amounts as reflected in the debt service schedules. Series 2017 term bonds due September 1, 2029, are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on September 1 in the years and amounts as reflected in the debt service schedules.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2019:

| | January 1, 2019 | Additions | Retirements | December 31, 2019 |
|-----------------------|--------------------|----------------------------|---------------|----------------------|
| Bonds Payable | \$ 31,105,000 | \$ 8,540,000 | \$ 10,855,000 | \$ 28,790,000 |
| Unamortized Discounts | (235,653) | (74,905) | (112,985) | (197,573) |
| Unamortized Premiums | 331,545 | 244,709 | 250,334 | 325,920 |
| Bonds Payable, Net | \$ 31,200,892 | \$ 8,709,804 | \$ 10,992,349 | \$ 28,918,347 |
| | | Amount Due Within One Year | | \$ 2,260,000 |
| | | Amount Due After One Year | | 26,658,347 |
| | | Bonds Payable, Net | | \$ 28,918,347 |

As of December 31, 2019, the District had authorized but unissued bonds in the amount of \$1,610,000 for utility facilities and \$13,670,000 for refunding bonds. On May 6, 2017, the District's voters authorized the issuance of \$30,000,000 of unlimited tax or refunding bonds. The \$30,000,000 of unlimited tax or refunding bonds remain unissued at year-end.

As of December 31, 2019, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------|--------------|---------------|
| 2020 | \$ 2,260,000 | \$ 795,242 | \$ 3,055,242 |
| 2021 | 2,320,000 | 684,364 | 3,004,364 |
| 2022 | 2,380,000 | 626,544 | 3,006,544 |
| 2023 | 2,450,000 | 566,588 | 3,016,588 |
| 2024 | 2,530,000 | 491,100 | 3,021,100 |
| 2025-2029 | 13,815,000 | 1,522,596 | 15,337,596 |
| 2030 | 3,035,000 | 91,050 | 3,126,050 |
| | \$ 28,790,000 | \$ 4,777,484 | \$ 33,567,484 |

During the year ended December 31, 2019, the District levied an ad valorem debt service tax rate of \$0.29 per \$100 of assessed valuation, which resulted in a tax levy of \$3,326,300 on the adjusted taxable valuation of \$1,146,888,073 for the 2019 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.
- B. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five year anniversary of the date of delivery of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$9,667,510 and the bank balance was \$9,763,837. Of the bank balance, \$1,675,059 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2019, as listed below:

| | Cash | Certificates of Deposit | Total |
|-----------------------|--------------|----------------------------|--------------|
| GENERAL FUND | \$ 7,227,854 | \$ | \$ 7,227,854 |
| DEBT SERVICE FUND | 1,503,553 | 589,669 | 2,093,222 |
| CAPITAL PROJECTS FUND | 346,434 | | 346,434 |
| TOTAL DEPOSITS | \$ 9,077,841 | \$ 589,669 | \$ 9,667,510 |

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investment in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Certificates of deposit are valued at acquisition cost at the date of purchase.

As of December 31, 2019, the District had the following investments:

| Fund and Investment Type | Fair Value | Maturities in Years | | | |
|------------------------------|----------------------|----------------------|-----------------|-----------------|-----------------|
| | | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | \$ 1,709,701 | \$ 1,709,701 | \$ | \$ | \$ |
| Money Market Mutual Fund | 4,490 | 4,490 | | | |
| Certificates of Deposit | 589,669 | 589,669 | | | |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| TexPool | 9,419,424 | 9,419,424 | | | |
| TOTAL INVESTMENTS | <u>\$ 11,723,284</u> | <u>\$ 11,723,284</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> |

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 and Money Market Mutual Funds were rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and the Money Market Mutual Funds to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the payment of capital expenditures.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019:

| | January 1, 2019 | Increases | Decreases | December 31, 2019 |
|--|----------------------|---------------------|---------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 3,806,407 | \$ | \$ | \$ 3,806,407 |
| Construction in Progress | <u>1,015,647</u> | <u>1,634,360</u> | <u>2,317,806</u> | <u>332,201</u> |
| Total Capital Assets Not Being Depreciated | <u>\$ 4,822,054</u> | <u>\$ 1,634,360</u> | <u>\$ 2,317,806</u> | <u>\$ 4,138,608</u> |
| Capital Assets Subject to Depreciation | | | | |
| Water System | \$ 27,327,273 | \$ 444,765 | \$ | \$ 27,772,038 |
| Wastewater System | 30,547,681 | 1,739,283 | | 32,286,964 |
| Building | 2,072,704 | | | 2,072,704 |
| Trucks and Equipment | <u>631,665</u> | <u>133,758</u> | <u>68,235</u> | <u>697,188</u> |
| Total Capital Assets Subject to Depreciation | <u>\$ 60,579,323</u> | <u>\$ 2,317,806</u> | <u>\$ 68,235</u> | <u>\$ 62,828,894</u> |
| Accumulated Depreciation | | | | |
| Water System | \$ 10,235,850 | \$ 603,604 | \$ | \$ 10,839,454 |
| Wastewater System | 12,833,180 | 721,052 | | 13,554,232 |
| Building | 337,271 | 51,818 | | 389,089 |
| Trucks and Equipment | <u>550,440</u> | <u>87,303</u> | <u>68,235</u> | <u>569,508</u> |
| Total Accumulated Depreciation | <u>\$ 23,956,741</u> | <u>\$ 1,463,777</u> | <u>\$ 68,235</u> | <u>\$ 25,352,283</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 36,622,582</u> | <u>\$ 854,029</u> | <u>\$ - 0 -</u> | <u>\$ 37,476,611</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 41,444,636</u> | <u>\$ 2,488,389</u> | <u>\$ 2,317,806</u> | <u>\$ 41,615,219</u> |

NOTE 7. REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among others powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporation, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, the Authority established a well pumpage fee of \$0.25 per 1,000 gallons of water pumped from each regulated well. This amount was increased to \$0.34 per 1,000 gallons effective October 1, 2003, increased to \$0.59 per 1,000 gallons effective April 1, 2005, increased to \$0.84 per 1,000 gallons effective

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7. REGIONAL WATER AUTHORITY FEES (Continued)

October 1, 2006, increased to \$0.99 per 1,000 gallons effective October 1, 2007, increased to \$1.50 per 1,000 gallons effective January 1, 2009, increased to \$1.75 per 1,000 gallons effective January 1, 2010, increased to \$2.00 per 1,000 gallons effective April 1, 2014, increased to \$2.40 per 1,000 gallons effective April 1, 2016, increased to \$2.90 per 1,000 gallons effective April 1, 2017, increased to \$3.40 per 1,000 gallons effective April 1, 2018 and increased to \$3.85 per 1,000 gallons effective April 1, 2019. During the current fiscal year, the District recorded well pumpage fees in the amount of \$2,701,703.

NOTE 8. RISK MANAGEMENT

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

NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT WITH THE CITY OF HOUSTON

The District is party to a Strategic Partnership Agreement with the City of Houston (the "City") effective March 31, 2005 pursuant to which the City has annexed a portion of the District for limited purposes and has agreed for a 30-year period not to annex the District for full purposes without the District's consent. The City levies a \$.01 sales tax on sales to consumers within the Limited Annexation area, and the District receives one half of the proceeds of the City's tax. The agreement ends on March 31, 2035, after which the City may (1) renew the agreement, (2) allow the agreement to expire and not annex the District, or (3) may annex the District under Texas Law. The District is not aware of any plans for the City to annex the District on or after March 31, 2035. During the current fiscal year, the District recorded \$1,119,902 in sales tax revenues.

NOTE 10. CONTRACTS WITH OTHER ENTITIES

Sewage Treatment

The District is providing sewage treatment service to Harris County Municipal Utility District No. 69 (District No. 69). This contract is effective for 40 years commencing July 11, 1973. The rate charged to District No. 69 is \$0.50 less than the current rate charged to District customers. This contract was amended May 12, 2004 and states that this agreement will remain in force until December 31, 2053. District No. 69 agreed to pay the District the total amount of \$495,402 in two payments. The first payment of \$247,701 was received in May 2004 and the second payment of \$247,701 was paid July 1, 2005. During the year ended December 31, 2019, the District received revenues of \$273,519 for sewage treatment.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 10. CONTRACTS WITH OTHER ENTITIES (Continued)

Sewage Treatment (Continued)

Harris County Municipal Utility District No. 248 (District No. 248) has purchased wastewater treatment plant capacity in the District's regional wastewater plant in the total amount of 256,250 gallons per day. Per the April 20, 2000 agreement, District No. 248 agrees to pay a monthly usage charge in the amount of ninety percent of the current in-district wastewater fee to the District. During the year ended December 31, 2019, the District received revenues of \$441,168.

In addition, Harris County Municipal Utility District No. 222 (District No. 222) has purchased wastewater treatment capacity in the District's regional wastewater plant in the total amount of 800,000 gallons per day. District No. 222 pays a monthly usage charge to the District. During the year ended December 31, 2019, the District received revenues of \$226,713.

Water Supply Contracts

On August 30, 2000, the District entered into a long term water supply contract with Harris County Municipal Utility District No. 248 (District No. 248). The contract allows District No. 248 to purchase 400 equivalent single family connections of water supply (SFEC's), resulting in a permanent water supply of an amount not to exceed 140,000 gallons per day, at a cost of \$500,000. The purchase of these connections has been completed. The District will furnish water supply to District No. 248 from existing surplus supply, and no construction of additional facilities is anticipated for these connections. The District has agreed to allow District No. 248, at its option, to purchase in no less than 100 SFEC increments, additional existing capacity in excess of 400 SFEC's, up to a maximum of 800 SFEC's. District No. 248 will pay the sum of \$1,250.00 per SFEC for additional capacity, in no less than 100 SFEC increments. District No. 248 agrees to give the District six months (180 days) advance notice of any additional capacity purchase, to allow for construction in the event any additional facilities are needed to supply the new connections. The purchase of any and/or all of these additional SFEC's must be made no later than June 15, 2005. The contract has been amended on June 13, 2001, March 12, 2003, December 8, 2004, February 28, 2007, April 30, 2008, and February 19, 2014. District No. 248 currently owns 2,500 connections for a total of 788,000 gallons of capacity. On April 30, 2008, the Districts amended the agreement to include a "Rehabilitation Fee" to be paid to the District for future rehabilitation of the water production and distribution facilities. The fee is based upon a monthly calculation. The term of this contract is 40 years from the effective date. During the year ended December 31, 2019, the District received revenues of \$105,203.

On August 13, 2003, the District entered into a Water Service Agreement with Emerald Forest Utility District (Emerald Forest) to provide 35,000 gallons per day. Emerald Forest will pay a capital payment of \$75,000. The District will monitor the usage for a two year period and if the usage ever exceeds 35,000 gallons per day, the agreement requires Emerald Forest to purchase an additional 5,000 gallons per day at an additional \$11,000 capital payment. Emerald Forest is responsible for payment of surface water fees to the North Harris County Regional Water Authority.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 11. INTERFUND RECEIVABLES AND LIABILITIES

As of December 31, 2019, the District had the following interfund liabilities: the Capital Projects Fund owed the General Fund \$571,811 for the remaining funds transferred to the Capital Projects Fund to fund the construction of the new administration building and the General Fund owed the Debt Service Fund \$23,235 for cost related to the Series 2016 Refunding and Series 2019 Refunding bond sales. The Debt Service Fund owed the Capital Projects Fund \$1,500 for costs related to the Series 2019 Refunding bond sale.

NOTE 12. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 780 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided

The plan provisions are adopted by the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At December 31, 2018, the following employees were covered by the benefit terms:

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12. PENSION PLAN (Continued)

Benefits Provided (Continued)

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 0 |
| Inactive employees entitled but not yet receiving benefits | 1 |
| Active employees | 19 |

Contributions

The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 7.87% for the months of the 2019 accounting. The deposit rate payable by the employee members for calendar years 2019 is 6.00% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

For the District's accounting year ended December 31, 2019, the annual pension cost for the TCDRS plan for its employees was \$97,498; the actual contributions were \$97,498. The employees contributed \$74,331 to the plan for the 2019 fiscal year.

Actuarial Assumptions

The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumption:

| | |
|---|--|
| Actuarial valuation date | 12/31/18 |
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, closed |
| Remaining Amortization period | 20.0 years |
| Asset Valuation Method | 5-year smoothed market |
| Actuarial Assumptions: | |
| Investment return ¹ | 8.00% |
| Projected salary increases ¹ | 4.90% |
| Inflation | 2.75% |
| Cost-of-living adjustments | 0.00% |

¹ Includes inflation at the stated rate

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12. PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, except where required to be different by GASB 68. All other assumptions and methods are the same as used in the prior valuation.

Mortality rates were based on the following:

Depositing members – 90% of the RP-2014 Active Employee Mortality Table for males and the RP-2014 Active Employee Mortality Table for females projected with 110% of the MP-2014 ultimate scale after 2014.

Service retirees, beneficiaries and non-depositing members – 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 ultimate scale after 2014.

Disabled retirees - 130% of the RP-2014 Disability Annuitant Mortality Table for males and 115% of the RP-2014 Disability Annuitant Mortality Table for females, both projected with 110% of the MP-2014 ultimate scale after 2014.

Discount Rate

The discount rate used to measure the total pension liability was 8.1%. There was no change in the discount rate since the previous year.

In order to determine the discount rate to be used, the actuary used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under the funding policy and the legal requirements under the TCDRS Act:

- 1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12. PENSION PLAN (Continued)

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses. Therefore, the actuary has used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.0%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is based on a 30-year time horizon; the most recent analysis was performed in 2017 based on the period January 1, 2013- December 31, 2016. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

| Asset Class | Target Allocation | Geometric Real Rate of Return (Expected minus Inflation) |
|------------------------------------|-------------------|---|
| US Equities | 10.50% | 5.40% |
| Private Equity | 18.00% | 8.40% |
| Global Equities | 2.50% | 5.70% |
| International Equities-Development | 10.00% | 5.40% |
| International Equities-Emerging | 7.00% | 5.90% |
| Investment-Grade Bonds | 3.00% | 1.60% |
| High-Yield Bonds | 12.00% | 4.39% |
| Direct Lending | 11.00% | 7.95% |
| Distressed Debt | 2.00% | 7.20% |
| REIT Equities | 2.00% | 4.15% |
| Master Limited Partnerships (MLPs) | 3.00% | 5.35% |
| Private Real Estate partnerships | 6.00% | 6.30% |
| Hedge Funds | 13.00% | 3.90% |

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 17. PENSION PLAN (Continued)

Changes in Net Pension Liability/(Asset) for the measurement year ended December 31, 2018 are as follows:

| | Increase (Decrease) | | |
|---|-----------------------------------|---------------------------------------|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a)-(b) |
| Balances of December 31, 2017 | \$ -0- | \$ -0- | \$ -0- |
| Changes for the year: | | | |
| Service Costs | 167,321 | | 167,321 |
| Interest on the Total Pension Liability | 13,553 | | 13,553 |
| Effect of Economic/Demographic Gains or Losses | (13,426) | | (13,426) |
| Administrative Expenses | | (132) | 132 |
| Member Contributions | | 68,260 | (68,260) |
| Net investment income | | 1,762 | (1,762) |
| Employer Contributions | | 89,534 | (89,534) |
| Other | | 4,701 | (4,701) |
| Balances of December 31, 2018 | <u>\$ 167,448</u> | <u>\$ 164,125</u> | <u>\$ 3,323</u> |

Sensitivity Analysis - The following presents the net pension liability/(asset) of the District, calculated using the discount rate of 8.10%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

| | 1% Decrease 7.10% | Current Discount Rate 8.10% | 1% Increase 9.10% |
|-------------------------------|-------------------------|-----------------------------------|-------------------------|
| Total pension Liability | \$ 193,964 | \$ 167,448 | \$ 145,450 |
| Fiduciary net position | <u>164,126</u> | <u>164,125</u> | <u>164,126</u> |
| Net pension liability/(asset) | <u>\$ 29,838</u> | <u>\$ 3,323</u> | <u>\$ (18,676)</u> |

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 17. PENSION PLAN (Continued)

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

| | Deferred Inflows of resources | Deferred Outflows of resources |
|--|----------------------------------|-----------------------------------|
| Differences between expected and actual experience | \$ 11,934 | \$ - 0 - |
| Changes in assumptions | | |
| Net difference between projected and actual earnings | | 3,748 |
| Contributions paid to TCDRS subsequent to the measurement date | | 97,498 |
| Total | \$ 11,934 | \$ 101,246 |

\$97,498 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2019 (i.e. to be recognized in the District's financial statements dated December 31, 2020). Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | |
|-------------------------|----------|
| 2019 | \$ (555) |
| 2020 | (555) |
| 2021 | (555) |
| 2022 | (555) |
| 2023 | (1,492) |
| Thereafter | (4,474) |

NOTE 13. REFUNDING BOND SALE

On June 6, 2019, the District issued \$8,540,000 of Unlimited Tax Refunding Bonds, Series 2019 to refund a portion of the District's remaining balance of the Series 2011 bonds and Series 2012 Refunding bonds. The net proceeds of \$8,500,183 were used to retire \$4,615,000 and \$3,775,000 of the Series 2011 and Series 2012 Refunding bonds, respectively. The effect of the refunding was to decrease total debt service by \$571,079 and obtain net present value savings of \$482,281.

NOTE 14. UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which are likely to have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

THIS PAGE INTENTIONALLY LEFT BLANK

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|--------------------------------------|---------------------|---|
| REVENUES | | | |
| Water Service | \$ 1,037,600 | \$ 936,906 | \$ (100,694) |
| Wastewater Service | 2,450,075 | 2,305,953 | (144,122) |
| Regional Water Authority Fee | 2,384,672 | 2,470,393 | 85,721 |
| Sales Tax Revenue | 1,200,000 | 1,119,902 | (80,098) |
| Penalty and Interest | 66,000 | 53,863 | (12,137) |
| Tap Connection and Inspection Fees | 47,000 | 56,344 | 9,344 |
| Miscellaneous Revenues | <u>324,400</u> | <u>385,749</u> | <u>61,349</u> |
| TOTAL REVENUES | <u>\$ 7,509,747</u> | <u>\$ 7,329,110</u> | <u>\$ (180,637)</u> |
| EXPENDITURES | | | |
| Service Operations: | | | |
| Personnel | \$ 1,985,680 | \$ 1,998,741 | \$ (13,061) |
| Professional Fees | 307,500 | 413,193 | (105,693) |
| Contracted Services | 16,500 | 15,221 | 1,279 |
| Utilities | 631,285 | 738,557 | (107,272) |
| Regional Water Authority Assessment | 2,543,911 | 2,701,703 | (157,792) |
| Repairs and Maintenance | 591,500 | 638,222 | (46,722) |
| Other | 838,279 | 704,682 | 133,597 |
| Capital Outlay | <u>110,000</u> | <u>117,758</u> | <u>(7,758)</u> |
| TOTAL EXPENDITURES | <u>\$ 7,024,655</u> | <u>\$ 7,328,077</u> | <u>\$ (303,422)</u> |
| NET CHANGE IN FUND BALANCE | \$ 485,092 | \$ 1,033 | \$ (484,059) |
| FUND BALANCE - JANUARY 1, 2019 | <u>7,358,548</u> | <u>7,358,548</u> | <u>_____</u> |
| FUND BALANCE - DECEMBER 31, 2019 | <u>\$ 7,843,640</u> | <u>\$ 7,359,581</u> | <u>\$ (484,059)</u> |

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
DECEMBER 31, 2019

| <u>Fiscal Year Ending December 31</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Employer Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Pensionable Covered Payroll</u> | <u>Actual Contribution as a Percentage of Covered Payroll</u> |
|---|--|---|---|--|---|
| 2018 | \$ 89,534 | \$ 89,534 | \$ -0- | \$ 1,137,665 | 7.87% |
| 2019 | \$ 97,498 | \$ 97,498 | \$ -0- | \$ 1,238,855 | 7.87% |

A full 10-year schedule will be displayed as it becomes available.

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 1. NET PENSION LIABILITY - TEXAS COUNTY & DISTRICT
 RETIREMENT SYSTEM**

Assumptions

The following methods and assumptions were used to determine contribution rates:

| | |
|---|---|
| Valuation Date | Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. |
| Actuarial Cost Method | Entry Age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 20.0 years (based on contribution rate calculated in 12/31/18 valuation) |
| Asset Valuation Method | 5-year, smoothed market |
| Inflation | 2.75% |
| Salary Increases | Varies by age and service. 4.9%, average over career including inflation |
| Investment Rate of Return | 8.00%, net of investment expenses, including inflation |
| Retirement Age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the MP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP -2014 Healthy Annuitant Mortality Table for females both projected with 110% of MP-2014 Ultimate scale after 2014. |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions* | 2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. |
| Changes in Plan Provisions reflected in Schedule* | 2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2018: No changes in plan provisions were reflected in the Schedule. |

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in Notes to Schedule

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

**SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

DECEMBER 31, 2019

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective April 1, 2005.

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1,000 Gallons over Minimum Use | Usage Levels |
|-------------------------------------|--------------------------------|---------------|---------------|---|---------------|
| WATER: | \$ 4.00 | 4,000 | N | \$ 1.125 | 4,001-10,000 |
| | | | | \$ 1.25 | 10,001-20,000 |
| | | | | \$ 1.50 | 20,000 and up |
| WASTEWATER: | \$ 15.50 | Flat | Y | | |
| SURCHARGE: | | | | | |
| Regional Water Authority Commission | | | | \$ 3.85 | per 1,000 |
| Regulatory Assessments | 0.5% of actual water and sewer | | | | |

District employs winter averaging for wastewater usage?
 X
 Yes No

Total monthly charges per 10,000 gallons usage: Water: \$10.75 Wastewater: \$15.50 Surcharge: \$38.63

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFCs</u> |
|-------------------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | | | x 1.0 | |
| ≤¾" | 3,701 | 3,658 | x 1.0 | 3,658 |
| 1" | 95 | 81 | x 2.5 | 203 |
| 1½" | 33 | 31 | x 5.0 | 155 |
| 2" | 122 | 121 | x 8.0 | 968 |
| 3" | 8 | 8 | x 15.0 | 120 |
| 4" | 7 | 7 | x 25.0 | 175 |
| 6" | 17 | 17 | x 50.0 | 850 |
| 8" | 14 | 14 | x 80.0 | 1,120 |
| 10" | 3 | 3 | x 115.0 | 345 |
| Total Water Connections | <u>4,000</u> | <u>3,940</u> | | <u>7,594</u> |
| Total Wastewater Connections* | <u>3,949</u> | <u>3,887</u> | x 1.0 | <u>3,887</u> |

* Includes Municipal Utility Districts No. 69, No. 222, and No. 248. Sewer connections are reported as SFE

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

| | | |
|------------------------------|-------------|---|
| Gallons pumped into system: | 719,502,000 | Water Accountability Ratio: 94.08% |
| | | (Gallons billed and maintenance/Gallons pumped) |
| Gallons billed to customers: | 676,878,000 | |

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2019

4. STANDBY FEES (authorized only under TWC Section 49.231):

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

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

Entirely X Partly _____ Not at all _____

ETJ in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | |
|---|-----------------------------|
| PERSONNEL EXPENDITURES (Including Benefits) | <u>\$ 1,998,741</u> |
| PROFESSIONAL FEES: | |
| Auditing | \$ 23,300 |
| Engineering | 250,708 |
| Legal | <u>139,185</u> |
| TOTAL PROFESSIONAL FEES | <u>\$ 413,193</u> |
| CONTRACTED SERVICES: | |
| Bookkeeping | <u>\$ 15,221</u> |
| UTILITIES: | |
| Electricity | \$ 671,848 |
| Telephone | <u>66,709</u> |
| TOTAL UTILITIES | <u>\$ 738,557</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 638,222</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Director Fees | \$ 32,850 |
| Insurance | 102,962 |
| Office Supplies and Postage | 71,035 |
| Travel and Meetings | 24,499 |
| Other | <u>25,543</u> |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 256,889</u> |
| CAPITAL OUTLAY: | |
| Capitalized Assets | \$ 117,758 |
| Expenditures Not Capitalized | <u> </u> |
| TOTAL CAPITAL OUTLAY | <u>\$ 117,758</u> |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2019**

OTHER EXPENDITURES:

| | | |
|-------------------------------------|-----------|--------------------------------|
| Chemicals | \$ | 64,866 |
| Communications | | 10,065 |
| Equipment/Tools | | 7,488 |
| Fuel | | 34,579 |
| Laboratory Fees | | 77,544 |
| Permit Fees | | 46,705 |
| Regional Water Authority Assessment | | 2,701,703 |
| Regulatory Assessment | | 14,372 |
| Sludge Hauling | | 152,175 |
| Uniforms | | 14,339 |
| Other | | <u>25,660</u> |
| TOTAL OTHER EXPENDITURES | \$ | <u>3,149,496</u> |
| TOTAL EXPENDITURES | \$ | <u><u>7,328,077</u></u> |

Number of persons employed by the District 19 Full-Time 1 Part-Time

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Funds | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|-------------------------------------|---|------------------|------------------|---------------------------|---|
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0009 | Varies | Daily | \$ 1,709,701 | \$ |
| Money Market Mutual Fund | XXXX3725 | Varies | Daily | 4,490 | |
| Certificate of Deposit | XXXX1441 | 0.25% | 03/05/20 | 90,000 | 64 |
| Certificate of Deposit | XXXX1128 | 0.30% | 04/28/20 | 155,000 | 78 |
| Certificate of Deposit | XXXX1192 | 1.05% | 08/10/20 | 245,000 | 353 |
| Certificate of Deposit | XXXX3058 | 0.10% | 01/03/20 | 99,669 | |
| TOTAL DEBT SERVICE FUND | | | | \$ 2,303,860 | \$ 495 |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| TexPool | XXXX0010 | Varies | Daily | \$ 1,502,071 | \$ |
| TexPool | XXXX0011 | Varies | Daily | 449,976 | |
| TexPool | XXXX0012 | Varies | Daily | 6,818,467 | |
| TexPool | XXXX0013 | Varies | Daily | 2,463 | |
| TexPool | XXXX0014 | Varies | Daily | 408,679 | |
| TexPool | XXXX0001 | Varies | Daily | 31,212 | |
| TexPool | XXXX0003 | Varies | Daily | 206,556 | |
| TOTAL CAPITAL PROJECTS FUND | | | | \$ 9,419,424 | \$ - 0 - |
| TOTAL - ALL FUNDS | | | | \$ 11,723,284 | \$ 495 |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Debt Service Taxes | |
|--------------------------------------|--------------------|--------------|
| TAXES RECEIVABLE - | | |
| JANUARY 1, 2019 | \$ 2,557,273 | |
| Adjustments to Beginning Balance | (30,879) | \$ 2,526,394 |
| Original 2019 Tax Levy | \$ 3,005,373 | |
| Adjustment to 2019 Tax Levy | 320,927 | 3,326,300 |
| TOTAL TO BE ACCOUNTED FOR | | \$ 5,852,694 |
| TAX COLLECTIONS: | | |
| Prior Years | \$ 2,227,334 | |
| Current Year | 677,054 | 2,904,388 |
| TAXES RECEIVABLE - DECEMBER 31, 2019 | | \$ 2,948,306 |
| TAXES RECEIVABLE BY | | |
| YEAR: | | |
| 2019 | | \$ 2,649,246 |
| 2018 | | 61,246 |
| 2017 | | 45,460 |
| 2016 | | 40,191 |
| 2015 | | 22,358 |
| 2014 | | 25,535 |
| 2013 and Prior | | 104,270 |
| TOTAL | | \$ 2,948,306 |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 287,283,351 | \$ 286,271,158 | \$ 255,855,215 | \$ 256,634,627 |
| Improvements | 919,306,502 | 848,504,116 | 816,302,612 | 794,060,898 |
| Personal Property | 106,547,200 | 100,330,583 | 95,811,455 | 101,639,692 |
| Exemptions | <u>(166,248,980)</u> | <u>(160,366,736)</u> | <u>(136,571,223)</u> | <u>(150,828,203)</u> |
| TOTAL PROPERTY VALUATIONS | <u><u>\$ 1,146,888,073</u></u> | <u><u>\$ 1,074,739,121</u></u> | <u><u>\$ 1,031,398,059</u></u> | <u><u>\$ 1,001,507,014</u></u> |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.29 | \$ 0.30 | \$ 0.31 | \$ 0.32 |
| Maintenance | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u><u>\$ 0.29</u></u> | <u><u>\$ 0.30</u></u> | <u><u>\$ 0.31</u></u> | <u><u>\$ 0.32</u></u> |
| ADJUSTED TAX LEVY* | <u><u>\$ 3,326,300</u></u> | <u><u>\$ 3,225,103</u></u> | <u><u>\$ 3,201,179</u></u> | <u><u>\$ 3,212,158</u></u> |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | <u><u>20.35 %</u></u> | <u><u>98.10 %</u></u> | <u><u>98.58 %</u></u> | <u><u>98.75 %</u></u> |

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019**

| S E R I E S - 2 0 1 1 | | | |
|--|---------------------------------|---|--------------|
| Due During Fiscal Years Ending December 31 | Principal Due September 1 | Interest Due March 1/ September 1 | Total |
| 2020 | \$ 415,000 | \$ 39,080 | \$ 454,080 |
| 2021 | 440,000 | 27,460 | 467,460 |
| 2022 | 460,000 | 14,260 | 474,260 |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| | \$ 1,315,000 | \$ 80,800 | \$ 1,395,800 |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019**

S E R I E S - 2 0 1 2 R E F U N D I N G

| Due During Fiscal Years Ending December 31 | Principal Due September 1 | Interest Due March 1/ September 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 715,000 | \$ 67,050 | \$ 782,050 |
| 2021 | 745,000 | 45,600 | 790,600 |
| 2022 | 775,000 | 23,250 | 798,250 |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| | <u>\$ 2,235,000</u> | <u>\$ 135,900</u> | <u>\$ 2,370,900</u> |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019**

S E R I E S - 2 0 1 6 R E F U N D I N G

| Due During Fiscal Years Ending December 31 | Principal Due September 1 | Interest Due March 1/ September 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 955,000 | \$ 104,640 | \$ 1,059,640 |
| 2021 | 975,000 | 86,304 | 1,061,304 |
| 2022 | 1,005,000 | 67,584 | 1,072,584 |
| 2023 | 390,000 | 48,288 | 438,288 |
| 2024 | 400,000 | 40,800 | 440,800 |
| 2025 | 410,000 | 33,120 | 443,120 |
| 2026 | 425,000 | 25,248 | 450,248 |
| 2027 | 440,000 | 17,088 | 457,088 |
| 2028 | 450,000 | 8,640 | 458,640 |
| 2029 | | | |
| 2030 | | | |
| | <u>\$ 5,450,000</u> | <u>\$ 431,712</u> | <u>\$ 5,881,712</u> |

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019

| S E R I E S - 2 0 1 7 | | | |
|--|---------------------------------|---|---------------|
| Due During Fiscal Years Ending December 31 | Principal Due September 1 | Interest Due March 1/ September 1 | Total |
| 2020 | \$ 140,000 | \$ 293,275 | \$ 433,275 |
| 2021 | 125,000 | 290,475 | 415,475 |
| 2022 | 105,000 | 287,975 | 392,975 |
| 2023 | 720,000 | 285,875 | 1,005,875 |
| 2024 | 735,000 | 271,475 | 1,006,475 |
| 2025 | 1,130,000 | 256,775 | 1,386,775 |
| 2026 | 1,160,000 | 234,175 | 1,394,175 |
| 2027 | 1,195,000 | 208,075 | 1,403,075 |
| 2028 | 1,230,000 | 178,200 | 1,408,200 |
| 2029 | 2,310,000 | 141,300 | 2,451,300 |
| 2030 | 2,400,000 | 72,000 | 2,472,000 |
| | \$ 11,250,000 | \$ 2,519,600 | \$ 13,769,600 |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019**

SERIES - 2019 REFUNDING

| Due During Fiscal Years Ending December 31 | Principal Due September 1 | Interest Due March 1/ September 1 | Total |
|--|---------------------------------|---|----------------------|
| 2020 | \$ 35,000 | \$ 291,197 | \$ 326,197 |
| 2021 | 35,000 | 234,525 | 269,525 |
| 2022 | 35,000 | 233,475 | 268,475 |
| 2023 | 1,340,000 | 232,425 | 1,572,425 |
| 2024 | 1,395,000 | 178,825 | 1,573,825 |
| 2025 | 1,065,000 | 136,975 | 1,201,975 |
| 2026 | 1,100,000 | 105,025 | 1,205,025 |
| 2027 | 1,125,000 | 83,025 | 1,208,025 |
| 2028 | 1,160,000 | 60,525 | 1,220,525 |
| 2029 | 615,000 | 34,425 | 649,425 |
| 2030 | 635,000 | 19,050 | 654,050 |
| | <u>\$ 8,540,000</u> | <u>\$ 1,609,472</u> | <u>\$ 10,149,472</u> |

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2019**

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending December 31 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|--|------------------------|-----------------------|--|
| 2020 | \$ 2,260,000 | \$ 795,242 | \$ 3,055,242 |
| 2021 | 2,320,000 | 684,364 | 3,004,364 |
| 2022 | 2,380,000 | 626,544 | 3,006,544 |
| 2023 | 2,450,000 | 566,588 | 3,016,588 |
| 2024 | 2,530,000 | 491,100 | 3,021,100 |
| 2025 | 2,605,000 | 426,870 | 3,031,870 |
| 2026 | 2,685,000 | 364,448 | 3,049,448 |
| 2027 | 2,760,000 | 308,188 | 3,068,188 |
| 2028 | 2,840,000 | 247,365 | 3,087,365 |
| 2029 | 2,925,000 | 175,725 | 3,100,725 |
| 2030 | 3,035,000 | 91,050 | 3,126,050 |
| | <u>\$ 28,790,000</u> | <u>\$ 4,777,484</u> | <u>\$ 33,567,484</u> |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Description | Original Bonds Issued | Bonds Outstanding January 1, 2019 | |
|---|------------------------------------|---|-----------------------------|
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Refunding Bonds - Series 2010 | \$ 5,435,000 | \$ 730,000 | |
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Bonds - Series 2011 | 8,630,000 | 6,330,000 | |
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Refunding Bonds - Series 2012 | 8,295,000 | 6,415,000 | |
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Refunding Bonds - Series 2016 | 7,390,000 | 6,380,000 | |
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Bonds - Series 2017 | 11,250,000 | 11,250,000 | |
| Harris County Fresh Water Supply District No. 61 Unlimited Tax Refunding Bonds - Series 2019 | <u>8,540,000</u> | | |
| TOTAL | <u><u>\$ 49,540,000</u></u> | <u><u>\$ 31,105,000</u></u> | |
| Bond Authority: | <u>Tax and Refunding Bonds</u> | <u>Tax Bonds</u> | <u>Refunding Bonds</u> |
| Amount Authorized by Voters | \$ 30,000,000 | \$ 75,545,000 | \$ 36,000,000 |
| Amount Issued | | <u>73,935,000</u> | <u>22,330,000</u> |
| Remaining to be Issued | <u><u>\$ 30,000,000</u></u> | <u><u>\$ 1,610,000</u></u> | <u><u>\$ 13,670,000</u></u> |

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|----------------------|-------------------|--|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding December 31, 2019</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| | \$ 730,000 | \$ 32,850 | \$ -0- | The Bank of New York Mellon Trust Co., N.A. Dallas, TX |
| | 5,015,000 | 134,496 | 1,315,000 | Wells Fargo Bank N.A. Houston, TX |
| | 4,180,000 | 152,675 | 2,235,000 | The Bank of New York Mellon Trust Co., N.A. Dallas, TX |
| | 930,000 | 122,496 | 5,450,000 | The Independent Bankers Bank Houston, TX |
| | | 293,275 | 11,250,000 | Amegy Bank, N.A. Houston, TX |
| <u>8,540,000</u> | | | <u>8,540,000</u> | The Bank of New York Mellon Trust Co., N.A. Dallas, TX |
| <u>\$ 8,540,000</u> | <u>\$ 10,855,000</u> | <u>\$ 735,792</u> | <u>\$ 28,790,000</u> | |

Debt Service Fund cash and investment balances as of
December 31, 2019:

\$ 3,807,413

Average annual debt service payment (principal and interest) for remaining term
of all debt:

\$ 3,051,589

See Note 3 for interest rates, interest payment dates and maturity dates.

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Water Service | \$ 936,906 | \$ 991,363 | \$ 931,395 |
| Wastewater Service | 2,305,953 | 2,307,234 | 2,334,959 |
| Regional Water Authority Fee | 2,470,393 | 2,288,384 | 1,888,555 |
| Sales Tax Revenues | 1,119,902 | 1,139,429 | 1,103,640 |
| Penalty and Interest | 53,863 | 54,472 | 50,304 |
| Tap Connection and Inspection Fees | 56,344 | 139,018 | 61,453 |
| Miscellaneous Revenues | 385,749 | 344,215 | 346,561 |
| TOTAL REVENUES | \$ 7,329,110 | \$ 7,264,115 | \$ 6,716,867 |
| EXPENDITURES | | | |
| Personnel | \$ 1,998,741 | \$ 1,876,891 | \$ 1,777,914 |
| Professional Fees | 413,193 | 337,269 | 322,280 |
| Contracted Services | 15,221 | 20,481 | 12,114 |
| Utilities | 738,557 | 676,268 | 906,907 |
| Regional Water Authority Assessment | 2,701,703 | 2,548,682 | 2,113,830 |
| Repairs and Maintenance | 638,222 | 594,890 | 526,347 |
| Other | 704,682 | 716,100 | 696,885 |
| Capital Outlay | 117,758 | 88,594 | 80,729 |
| TOTAL EXPENDITURES | \$ 7,328,077 | \$ 6,859,175 | \$ 6,437,006 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 1,033 | \$ 404,940 | \$ 279,861 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In(Out) | \$ - 0 - | \$ - 0 - | \$ 574,030 |
| NET CHANGE IN FUND BALANCE | \$ 1,033 | \$ 404,940 | \$ 853,891 |
| BEGINNING FUND BALANCE | 7,358,548 | 6,953,608 | 6,099,717 |
| ENDING FUND BALANCE | \$ 7,359,581 | \$ 7,358,548 | \$ 6,953,608 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|---------------------|---------------------|-----------------------------|----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 923,491 | \$ 984,804 | 12.7 % | 13.7 % | 13.9 % | 13.8 % | 14.6 % |
| 2,335,420 | 2,372,358 | 31.5 | 31.8 | 34.8 | 34.8 | 35.4 |
| 1,604,918 | 1,458,256 | 33.7 | 31.5 | 28.1 | 23.9 | 21.8 |
| 1,124,010 | 1,133,895 | 15.3 | 15.7 | 16.4 | 16.7 | 16.9 |
| 49,759 | 73,887 | 0.7 | 0.7 | 0.7 | 0.7 | 1.1 |
| 258,605 | 285,275 | 0.8 | 1.9 | 0.9 | 3.8 | 4.3 |
| 426,738 | 394,149 | 5.3 | 4.7 | 5.2 | 6.3 | 5.9 |
| <u>\$ 6,722,941</u> | <u>\$ 6,702,624</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| | | | | | | |
| \$ 1,618,616 | \$ 1,574,231 | 27.3 % | 25.8 % | 26.5 % | 24.1 % | 23.5 % |
| 346,659 | 202,779 | 5.6 | 4.6 | 4.8 | 5.2 | 3.0 |
| 15,922 | 14,896 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |
| 986,166 | 975,817 | 10.1 | 9.3 | 13.5 | 14.7 | 14.6 |
| 1,790,969 | 1,691,860 | 36.9 | 35.1 | 31.5 | 26.6 | 25.2 |
| 678,380 | 712,794 | 8.7 | 8.2 | 7.8 | 10.1 | 10.6 |
| 814,463 | 707,804 | 9.6 | 9.9 | 10.4 | 12.1 | 10.6 |
| 65,416 | 1,137,347 | 1.6 | 1.2 | 1.2 | 1.0 | 17.0 |
| <u>\$ 6,316,591</u> | <u>\$ 7,017,528</u> | <u>100.0 %</u> | <u>94.4 %</u> | <u>95.9 %</u> | <u>94.0 %</u> | <u>104.7 %</u> |
| | | | | | | |
| \$ 406,350 | \$ (314,904) | <u>0.0 %</u> | <u>5.6 %</u> | <u>4.1 %</u> | <u>6.0 %</u> | <u>(4.7) %</u> |
| | | | | | | |
| \$ - 0 - | \$ - 0 - | | | | | |
| \$ 406,350 | \$ (314,904) | | | | | |
| <u>5,693,367</u> | <u>6,008,271</u> | | | | | |
| | | | | | | |
| <u>\$ 6,099,717</u> | <u>\$ 5,693,367</u> | | | | | |

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 3,191,313 | \$ 3,102,728 | \$ 3,118,078 |
| Penalty and Interest | 80,043 | 43,414 | 47,920 |
| Investment Revenues | 74,118 | 67,406 | 31,156 |
| Miscellaneous Revenues | 47,703 | 29,536 | 33,463 |
| TOTAL REVENUES | \$ 3,393,177 | \$ 3,243,084 | \$ 3,230,617 |
| EXPENDITURES | | | |
| Tax Collection Expenditures | \$ 135,287 | \$ 117,723 | \$ 120,883 |
| Debt Service Principal | 2,465,000 | 2,365,000 | 2,265,000 |
| Debt Service Interest and Fees | 737,242 | 961,463 | 800,175 |
| Bond Issuance Costs | 299,746 | | |
| TOTAL EXPENDITURES | \$ 3,637,275 | \$ 3,444,186 | \$ 3,186,058 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ (244,098) | \$ (201,102) | \$ 44,559 |
| OTHER FINANCING SOURCES (USES) | | | |
| Long-Term Debt Issued | \$ 8,540,000 | \$ | \$ |
| Payment to Refunded Bond Escrow Agent | (8,500,183) | | |
| Bond Discount | (74,905) | | |
| Bond Premium | 244,709 | | |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 209,621 | \$ - 0 - | \$ - 0 - |
| NET CHANGE IN FUND BALANCE | \$ (34,477) | \$ (201,102) | \$ 44,559 |
| BEGINNING FUND BALANCE | 3,186,937 | 3,388,039 | 3,343,480 |
| ENDING FUND BALANCE | \$ 3,152,460 | \$ 3,186,937 | \$ 3,388,039 |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | 3,940 | 3,937 | 3,915 |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | 3,887 | 3,887 | 3,841 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|---------------------|-----------------------|-----------------------------|----------------|----------------|----------------|-----------------|
| <u>2016</u> | <u>2015</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| \$ 3,008,732 | \$ 2,864,702 | 94.0 % | 95.7 % | 96.5 % | 97.4 % | 99.0 % |
| 33,955 | 27,204 | 2.4 | 1.3 | 1.5 | 1.1 | 0.9 |
| 10,749 | 2,189 | 2.2 | 2.1 | 1.0 | 0.3 | 0.1 |
| <u>38,192</u> | <u>20</u> | <u>1.4</u> | <u>0.9</u> | <u>1.0</u> | <u>1.2</u> | |
| <u>\$ 3,091,628</u> | <u>\$ 2,894,115</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 122,229 | \$ 122,091 | 4.0 % | 3.6 % | 3.7 % | 4.0 % | 4.2 % |
| 2,095,000 | 3,070,000 | 72.6 | 72.9 | 70.1 | 67.8 | 106.1 |
| 878,472 | 1,074,031 | 21.7 | 29.6 | 24.8 | 28.4 | 37.1 |
| <u>161,474</u> | | <u>8.8</u> | | | <u>5.2</u> | |
| <u>\$ 3,257,175</u> | <u>\$ 4,266,122</u> | <u>107.1 %</u> | <u>106.1 %</u> | <u>98.6 %</u> | <u>105.4 %</u> | <u>147.4 %</u> |
| <u>\$ (165,547)</u> | <u>\$ (1,372,007)</u> | <u>(7.1) %</u> | <u>(6.1) %</u> | <u>1.4 %</u> | <u>(5.4) %</u> | <u>(47.4) %</u> |
| \$ 7,390,000 | \$ | | | | | |
| (7,212,667) | | | | | | |
| | | | | | | |
| <u>\$ 177,333</u> | <u>\$ - 0 -</u> | | | | | |
| \$ 11,786 | \$ (1,372,007) | | | | | |
| <u>3,331,694</u> | <u>4,703,701</u> | | | | | |
| <u>\$ 3,343,480</u> | <u>\$ 3,331,694</u> | | | | | |
| <u>3,892</u> | <u>3,910</u> | | | | | |
| <u>3,914</u> | <u>9,307</u> | | | | | |

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019**

District Mailing Address - Harris County Fresh Water Supply District No. 61
c/o Smith, Murdaugh, Little & Bonham, LLP
2727 Allen Parkway, Suite 1100, Houston, Texas 77019

District Telephone Number - (281) 469-9405

| Board Members | Term of Office (Elected or Appointed) | Fees of Office for the year ended <u>December 31, 2019</u> | Expense Reimbursements for the year ended <u>December 31, 2019</u> | <u>Title</u> |
|----------------------|--|---|---|------------------------|
| Ben Solis | 05/16 05/20 (Elected) | \$ 6,900 | \$ 291 | President |
| Darrell A. Barroso | 05/18 05/22 (Elected) | \$ 7,200 | \$ 392 | Vice President |
| Lary J. Cangelose | 05/16 05/20 (Elected) | \$ 6,150 | \$ 138 | Secretary |
| Jon Morgan | 01/20 05/20 (Appointed) | \$ -0- | \$ -0- | Treasurer |
| Mike Kelley | 05/18 05/22 (Elected) | \$ 7,200 | \$ 683 | Assistant Secretary |
| Charles W. Merritt | 05/16 01/20 (Elected) | \$ 5,400 | \$ -0- | Resigned |

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form: February 11, 2020

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060). Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2019**

| Consultants: | <u>Date Hired</u> | <u>Fees for the year ended December 31, 2019</u> | <u>Title</u> |
|---------------------------------------|-------------------|--|---|
| Smith, Murdaugh, Little & Bonham, LLP | 05/22/67 | \$ 137,485 \$ 95,315 \$ 26,000 | General Council Bond Related Delinquent Tax Attorney |
| McCall Gibson Swedlund Barfoot PLLC | 12/17/14 | \$ 23,300 \$ 1,500 | Auditor Bond Related |
| Municipal Business Service | 01/01/83 | \$ 10,719 | District Funds Manager |
| Robert W. Baird & Company | 02/18/15 | \$ 87,178 | Financial Advisor |
| Lockwood Andrews & Newnam, Inc. | 09/93 | \$ 922,380 | Engineer |
| Key Personnel: | | | |
| Jerry Homan | 10/13/94 | Salaried Employee | General Manager/ Investment Officer |
| Brian Breeding | 03/21/11 | Salaried Employee | Assistant General Manager |
| Pam Magee | 09/27/88 | Salaried Employee | Office Manager/ Investment Officer |

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

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