

OFFICIAL STATEMENT DATED DECEMBER 22, 2020

**THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE EFFECT THAT, UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME OF THE OWNERS THEREOF FOR FEDERAL INCOME TAX PURPOSES. SEE "LEGAL MATTERS -- TAX EXEMPTION" HEREIN.**

*The District has **not** designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "TAX MATTERS -- NOT Qualified Tax-Exempt Obligations."*

**NEW ISSUE  
BOOK-ENTRY ONLY  
CUSIP No. 643161**

**RATINGS: (S&P– BAM) "AA" (stable outlook)  
(See "BOND INSURANCE" herein)  
Underlying Rating: Moody's "A3"**

**NEW CANEY MUNICIPAL UTILITY DISTRICT**

(A political subdivision of the State of Texas located within Montgomery County, Texas)

**\$8,615,000**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

**Bonds Dated: January 1, 2021**

**Due: April 1, as shown on inside cover**

The \$8,615,000 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds") are obligations solely of New Caney Municipal Utility District (the "District") and are not obligations of the State of Texas; Montgomery County, Texas; the City of Houston, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from January 1, 2021, and will be payable April 1, 2021 and each October 1 and April 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in principal denominations of \$5,000 or integral multiples thereof initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System."

Principal of and the redemption price for the Bonds are payable by UMB Bank n.a., Houston, Texas or any successor paying agent/registrant (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth (15<sup>th</sup>) day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner. See "THE BONDS--Description."

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

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE



The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS--Source of and Security for Payment." The Bonds are subject to special investment considerations described herein. See "RISK FACTORS." **Neither the State of Texas, Montgomery County, Texas, the City of Houston, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds.**

The Bonds will be delivered when, as, and if issued by the District and accepted by the initial purchaser of the Bonds (the "Underwriter"), subject, amongst other things, to the approval of the Initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Johnson Petrov LLP, Houston, Texas, Bond Counsel, Houston, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Underwriter's Counsel. Delivery of the Bonds is expected on January 28, 2021, in Houston, Texas.

**SAMCO Capital**

## MATURITY SCHEDULE

**Bonds Dated: January 1, 2021**

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

| <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Initial Yield(a)</u> | <u>CUSIP (b)</u> | <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Initial Yield(a)</u> | <u>CUSIP (b)</u> |
|-----------------|---------------|----------------------|-------------------------|------------------|-----------------|---------------|----------------------|-------------------------|------------------|
| 2021            | \$20,000      | 3.000%               | 0.330%                  | 643161LN0        | 2028            | \$920,000     | 3.000%               | 0.980%                  | 643161LV2        |
| 2022            | 295,000       | 3.000%               | 0.340%                  | 643161LP5        | 2029(c)         | 965,000       | 2.000%               | 1.080%                  | 643161LW0        |
| 2023            | 315,000       | 3.000%               | 0.410%                  | 643161LQ3        | 2030(c)         | 990,000       | 2.000%               | 1.260%                  | 643161LX8        |
| 2024            | 335,000       | 3.000%               | 0.470%                  | 643161LR1        | 2031(c)         | 1,030,000     | 2.000%               | 1.380%                  | 643161LY6        |
| 2025            | 345,000       | 3.000%               | 0.570%                  | 643161LS9        | 2032(c)         | 1,065,000     | 2.000%               | 1.490%                  | 643161LZ3        |
| 2026            | 360,000       | 3.000%               | 0.700%                  | 643161LT7        | 2033(c)         | 1,095,000     | 2.000%               | 1.540%                  | 643161MA7        |
| 2027            | 880,000       | 3.000%               | 0.860%                  | 643161LU4        |                 |               |                      |                         |                  |

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from January 1, 2021 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after April 1, 2029, are subject to redemption prior to maturity at the option of the District, as a whole or, from time to time, in part, on April 1, 2028, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS--Redemption of Bonds."

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

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter 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 Underwriter.

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.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Johnson Petrov LLP, 2929 Allen Parkway, Suite 3150, Houston, Texas 77019-6100 upon payment of duplication costs.

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 condition 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 that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "PREPARATION OF THE 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 offering document.

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

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter prior to 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 or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter or control regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

### **Securities Laws**

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

### **Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$9,146,614.25 (being the par amount of the Bonds, plus a net premium on the Bonds of \$597,174.40 less an underwriter's discount of \$65,560.15, plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriter to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter within the guidelines prescribed by applicable laws and regulations of the United States Securities and Exchange Commission.

### **Municipal Bond Rating**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating.

In connection with the sale of the Bonds, the District made application to Moody's Investors Service, Inc. ("Moody's"), which has assigned a rating of "A3" to the Bonds. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that the S&P or Moody's ratings will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P or Moody's if in the judgment of S&P or Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. This summary should not be detached and should be used in conjunction with more complete information contained herein.

### - The District -

|                    |  |
|--------------------|--|
| Issuer/Description | New Caney Municipal Utility District (the "District") was created by the Texas Water Commission, the predecessor to the Texas Commission on Environmental Quality ("TCEQ") on June 1, 1978. The creation of the District was confirmed by election held within the District on August 15, 1978. The District, with approximately 9,413.31 acres, is located entirely within Montgomery County, approximately 17 miles southeast of the City of Conroe, and approximately 30 miles northeast of the central business district of the City of Houston. The District is bisected by U.S. Highway 59, which traverses the District north to south, and Farm-to-Market Road 1485, which traverses the District from East to West. As of November, 2020, there were 4,614 active water connections, including a number of multi-family meters, to the District's waterworks and wastewater system. See "THE DISTRICT." |
| Authority          | 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, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT-Authority."  |

### - The Bonds -

|                                      |   |
|--------------------------------------|---|
| Description                          | The \$8,615,000 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds") bear interest at the rates per annum set forth on the inside cover page hereof, from January 1, 2021, and are payable April 1, 2021 and each October 1 and April 1 thereafter until the earlier of maturity or prior redemption. The Bonds mature serially on April 1 in the years 2021 through 2033, inclusive, in the principal amounts set forth on the inside cover page hereof. Bonds scheduled to mature on or after April 1, 2029, are subject to optional redemption at the option of the District on any date on or after April 1, 2028, at a price of par plus accrued interest to the date of redemption. See "THE BONDS--Description" and "--Optional Redemption." |
| Source of Payment                    | Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of Montgomery County, the State of Texas, the City of Houston, or any political subdivision other than the District. See "THE BONDS — Source of and Security for Payment."  |
| Use of Proceeds                      | Proceeds of the Bonds will be used to currently refund the outstanding portions of the District's Unlimited Tax Refunding Bonds, Series 2014 (the "Refunded Bonds") and to pay the costs of issuance of the Bonds. See "THE BONDS — Use of Proceeds."   |
| NOT Qualified Tax Exempt Obligations | The District has NOT designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS--NOT Qualified Tax-Exempt Obligations."   |
| Payment Record                       | The District has never defaulted on the payment of any bond obligation. See "DISTRICT DEBT."  |

Book-Entry Only System

The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by the UMB Bank n.s., Houston, Texas, the initial Paying Agent/Registrar, to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see “THE BONDS--Book-Entry Only System”).

Bond Counsel

Johnson Petrov LLP, Houston, Texas, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”

Underwriter’s Counsel

Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

Verification Agent

Ritz & Associates PA, A Professional Association, Bloomington, Minnesota.

Financial Advisor

Blitch Associates, Inc., Houston, Texas.

Municipal Bond Rating

The District made application to Moody’s Investors Service, Inc., which has assigned a rating of “A3” to the Bonds based upon the District’s underlying credit. See “SALE AND DISTRIBUTION OF THE BONDS–Municipal Bond Rating.”

Municipal Bond Rating and Municipal Bond Insurance

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC is expected to assign a municipal rating of “AA” (stable outlook) as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company. See “SALE AND DISTRIBUTION OF THE BONDS–Municipal Bond Rating,” “BOND INSURANCE” and “APPENDIX B–Specimen Municipal Bond Insurance Policy.”

### RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”



**- Financial Highlights -  
(Unaudited)**

|  |                      |              |
|--|----------------------|--------------|
| 2020 Taxable Assessed Valuation (100% of Market Value)       | \$549,909,949        | (a)          |
| Direct Debt  |                      |              |
| Outstanding Bonds (As of November 1, 2020)                   | \$34,433,524         |              |
| Less: The Refunded Bonds                                     | (8,650,000)          |              |
| The Bonds  | <u>8,615,000</u>     |              |
| Total Direct Debt  | \$34,398,524         |              |
| Estimated Overlapping Debt                                   | <u>76,620,764</u>    | (b)          |
| Direct and Estimated Overlapping Debt                        | <u>\$111,019,288</u> |              |
| Direct Debt Ratios:  |                      |              |
| Direct Debt to Value   | 6.26%                |              |
| Direct & Estimated Overlapping Debt to Value                 | 20.19%               |              |
| 2020 Tax Rate per \$100 of Assessed Value                    |                      |              |
| Debt Service   | \$0.500              |              |
| Maintenance  | <u>0.000</u>         |              |
| Total  | <u>\$0.500</u>       |              |
|  | <i>Current</i>       | <i>Total</i> |
| 2019 Tax Collection Percentage                               | 93.89%               | 101.80%      |
| Five-Year Average (2015/2019) Collection Percentage          | 93.05%               | 99.59%       |
| Average Annual Debt Service Requirements (2021/42)           |                      | \$2,212,330  |
| Maximum Annual Debt Service Requirements (2042)              |                      | \$2,292,188  |
| Tax Rate Required to pay such Requirements at 98% Collection |                      |              |
| Average (2021/2042)  |                      | \$0.411      |
| Maximum (2042)   |                      | \$0.426      |
| Fund Balances as of October 31, 2020 (Cash & Investments)    |                      |              |
| General Fund   |                      | \$3,495,344  |
| Debt Service Fund  |                      | \$2,247,271  |
| Capital Projects Fund  |                      | \$9,064,748  |

(a) Certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "DISTRICT DEBT--Estimated Overlapping Debt."

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**\$8,615,000**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

This Official Statement of New Caney Municipal Utility District (the "District") is provided to furnish certain information with respect to the sale by the District of its \$8,615,000 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Directors of the District (the "Board"); Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended. In the Order, the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve and execute a "Pricing Certificate" which will complete the sale of the Bonds (the Order and the Pricing Certificate are jointly referred to as the "Bond Order"). See "THE BONDS."

This Official Statement includes descriptions of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Johnson Petrov LLP, located at 2929 Allen Parkway, Suite 3150, Houston, Texas 77019-6100.

**THE BONDS**

**Description**

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 the Bond Order may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on April 1 of the years and in principal amounts, and will bear interest from January 1, 2021, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on April 1, 2021, and semiannually thereafter on each October 1 and April 1 thereafter until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), by the paying agent/registrar, initially UMB Bank n.a., Houston, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15<sup>th</sup> day of the month next preceding the interest payment date (the "Record Date"). The Bonds of each maturity will be issued in fully-registered form only in the principal amount of \$5,000 or any integral multiple thereof.

If the specified date for any payment of principal (or redemption price) or interest on the Bonds shall be a Saturday, Sunday or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the City of Houston, Texas, such payment may be made on the next succeeding date which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payments.

### Use of Proceeds

Proceeds of the Bonds will be used to currently refund the outstanding callable portions of the District's Unlimited Tax Refunding Bonds, Series 2014 (the "Refunded Bonds") and to pay the costs of issuance of the Bonds. The Refunded Bonds consist of the following:

| <u>Maturity</u> | <u>Amount</u>      | <u>Rate</u> |
|-----------------|--------------------|-------------|
| 2022            | \$275,000          | 3.000%      |
| 2023            | 295,000            | 3.000%      |
| 2024            | 310,000            | 3.250%      |
| 2025            | 320,000            | 3.500%      |
| 2026            | 340,000            | 3.750%      |
| 2027            | 860,000            | 4.000%      |
| 2028            | 910,000            | 4.000%      |
| 2029            | 960,000            | 4.000%      |
| 2030            | 1,005,000          | 4.125%      |
| 2031            | 1,065,000          | 4.250%      |
| 2032            | 1,125,000          | 4.250%      |
| 2033            | <u>1,185,000</u>   | 4.375%      |
| Totals          | <u>\$8,650,000</u> |             |
| Call Date       | April 1, 2021      |             |

The proceeds derived from the sale of the Bonds will be applied as follows:

#### **Sources:**

|                    |                       |
|--------------------|-----------------------|
| Par Amount         | \$8,615,000.00        |
| Reoffering Premium | 597,174.40            |
| Accrued Interest   | <u>15,525.00</u>      |
| Total Sources      | <u>\$9,227,699.40</u> |

#### **Uses:**

|                                  |                       |
|----------------------------------|-----------------------|
| Cash Deposit for Refunding       | \$8,823,350.00        |
| Underwriter's Discount           | 65,560.15             |
| Insurance Premium                | 35,247.16             |
| Costs of Issuance                | 288,017.09            |
| Deposit to the Debt Service Fund | <u>15,525.00</u>      |
| Total Uses                       | <u>\$9,227,699.40</u> |

## **Refunded Bonds**

In the Bond Order, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held by the paying agent for the Refunded Bonds, BOKF, N.A. (the “Paying Agent for the Refunded Bonds”).

Proceeds from the sale of the Bonds will be used to refund the Refunded Bonds in order to lower the District’s overall debt service and to pay costs of issuing the Bonds. The Refunded Bonds and the interest due thereon are to be paid on the date of redemption from funds to be deposited with the Paying Agent for the Refunded Bonds.

The Bond Order provides that from a portion of the proceeds of the sale of the Bonds to the underwriter listed on the cover page hereof (the “Underwriter”), together with other legally available funds of the District, if any, the District will deposit with the Paying Agent for the Refunded Bonds, the amount necessary to accomplish the discharge and final payment of the Refunded Bonds.’

Ritz & Associates PA, A Professional Association, a firm of independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the funds on deposit with the Paying Agents for the Refunded Bonds will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such funds on deposit with the Paying Agents for the Refunded Bonds will not be available to pay the Bonds. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.”

By the deposit of the cash with the Paying Agent for the Refunded Bonds, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the order authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds deposited with the Paying Agent for the Refunded Bonds.

## **Book-Entry-Only System**

*This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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 requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, 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 a 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct or 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 interest 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 the 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 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest 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 nor its nominee, 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 and 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 shall 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

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

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

### **Registration and Transfer**

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Houston, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, 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. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the 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 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

### **Optional Redemption**

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on April 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

At least thirty (30) days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class, postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar; provided, however, that the failure to receive such notice shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any Bond shall be redeemed, a substitute Bond having the same maturity date, bearing interest at the same rate, in any integral multiple of \$5,000, and in aggregate principal amount equal to the unredeemed position thereof, will be issued to the registered owner upon the surrender of the Bonds being redeemed, at the expense of the District, all as provided for in the Bond Order.

### **Ownership**

The District, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of receiving payment of the principal and the interest

thereon, and for all other purposes, whether or not such Bond is overdue. Neither the District, the Paying Agent/Registrar nor any agent of either shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Bond Order shall be valid and effective and shall discharge the liability of the District and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

### **Source of and Security for Payment**

The Bonds and the Outstanding Bonds (as hereinafter defined) (together with any additional unlimited tax or combination unlimited tax bonds as may hereafter be issued) are payable as to principal and interest from the proceeds of a continuing, direct, 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 annually a tax sufficient in amount to pay principal of and interest on the Bonds, full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used solely to pay principal and interest on the Bonds, the Outstanding Bonds and on any additional bonds payable from taxes which may be issued. See "Issuance of Additional Debt" below.

### **Replacement of Paying Agent/Registrar**

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

### **Authority for Issuance**

The District has previously issued twelve installments of bonds in the aggregate principal amount of \$45,895,000 for waterworks, sanitary sewer and drainage facilities authorized at various elections held within the District for that purpose in 1980, 1995, 2001 and 2004. An aggregate of \$19,090,000 principal amount of unlimited tax bonds remain authorized but unissued. Additionally, unlimited tax refunding bonds in the amount of \$70,650,000 were authorized at an election in 2004, of which \$69,791,476 remain unissued. See "Issuance of Additional Debt."

The Bonds are issued pursuant to the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, as amended; and Article XVI, Section 59 of the Texas Constitution.

### **Outstanding Debt**

The District has previously issued and has outstanding its \$9,955,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Bonds"); \$7,258,524 Unlimited Tax Refunding Bonds, Series 2015 (the "Series 2015 Bonds"); \$2,400,000 Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds"); \$6,105,000 Unlimited Tax Bonds, Series 2016-A (the "Series 2016-A Bonds"); and \$12,100,000 Unlimited Tax Bonds, Series 2019 (the "Series 2019 Bonds").

As of November 1, 2020, \$8,910,000 of the Series 2014 Bonds, \$5,953,524 of the Series 2015 Bonds, \$1,880,000 of the Series 2016 Bonds, \$5,740,000 of the Series 2016-A Bonds, and \$11,950,000 of the Series 2019 Bonds remain outstanding (the "Outstanding Bonds").

### **Issuance of Additional Debt**

The District may issue additional bonds to provide those improvements for which the District was created. Following the issuance of the Bonds, \$19,090,000 unlimited tax bonds authorized by the District's voters will remain unissued. The District has plans to sell approximately \$15,000,000 additional bonds within the next year.

According to the District's Engineer, the remaining authorized but unissued bonds will be sufficient to extend the utility system to the remaining undeveloped acres within the District. Depending upon the rate of development and increases in assessed valuation of taxable property within the District and the amount, maturity schedule and time of issuance of such additional bonds, increases in the District's annual tax rate may be required to provide for the payment of the principal of and interest on such additional bonds, the Outstanding Bonds and the Bonds. Additional tax bonds and/or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Order imposes 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, and may dilute the security of the Bonds.

### **Defeasance**

The Bond Order provides that the obligation of the District to make money available to pay the principal of and interest on the Bonds may be terminated by the deposit of money and/or non-callable direct or indirect obligations of the United States of America, sufficient for such purpose, in the manner described in the Bond Order.

### **Mutilated, Lost, Stolen or Destroyed Bonds**

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.

### **Annexation and Consolidation**

Under Texas law, the territory within the District may be annexed by the City of Houston, Texas (the "City") without the consent of the District or its residents. If annexation by the City does occur, the District would be abolished within 90 days after annexation. If the District is abolished, the City must assume the assets, functions and obligations of the District, including the Bonds. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

The District has the right to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and sewer system (the "System") with the water and sewer systems of the district or districts with which it is consolidating. Should any such consolidation occur, the net revenues from the operation of the consolidated system would be applied to the payment of principal, interest, redemption price and bank charges on the combination unlimited tax and revenue bonds of the District, if any, and of the district or districts with which the District is consolidated without prejudice to any series of bonds, except that bonds with subordinate liens on net revenues shall continue to be subordinate. No representations are made that the District will ever consolidate its utility system with other systems.

### **Amendments to the Bond Order**

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds, (b) give preference of any Bond over any other Bond, or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law,



may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

### **Registered Owners' Remedies and Effects of Bankruptcy**

The Bond Order provides that, in the event the District defaults in the observance or performance of any covenant in the Bond Order, including payment when due of the principal of and interest on the Bonds, any registered owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board or other officers of the District to observe or perform any covenants, obligations or conditions prescribed by the Bond Order. Such right is in addition to other rights of the registered owners of the Bonds that may be provided by the laws of the State of Texas.

The Bond Order does not provide additional remedies to a registered owner. Specifically, the Bond Order does not provide for appointment of a trustee to protect and enforce the interests of the registered owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus may have to be relied upon from year to year by the registered owners.

Under Texas law, no judgment obtained against the District may be enforced by execution or a levy against the District's public purpose property. The registered owners cannot themselves foreclose on taxable property within the District or sell property within the District in order to pay principal of and interest on the Bonds. In addition, the enforceability of the rights and remedies of the registered owners may be subject to limitation pursuant to federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of the 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. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner 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 such registered owner's claim against the District.

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

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful

security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than “A” or its equivalent to be legal investments for such entity’s funds. The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the suitability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability of the Bonds for investment or collateral purposes.

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27<sup>th</sup> Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

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

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

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$505.3 million, \$158.1 million and \$347.2 million, respectively.

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

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

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

### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## THE DISTRICT

### Authority

The District is a municipal utility district created by the Texas Water Rights Commission, predecessor to the TCEQ, on June 1, 1978, and confirmed at an election held within the District on August 15, 1978. The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own, and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the City of Houston, the TCEQ and the District's voters of the District's plans in such regard. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

### Description

The District encompasses approximately 9,413.31 acres, is located in northeast Montgomery County along U.S. Highway 59 which transverses the District north to south and is roughly bisected by FM 1485 from east to west. The District is approximately 17 miles southeast of the City of Conroe and approximately 30 miles northeast of downtown Houston and lies partially within the City of Houston's extraterritorial jurisdiction.

The land within the District has elevations which range from approximately 65 feet mean sea level ("msl") to approximately 110 feet msl. According to LJA Engineering, Inc., the District's consulting engineer (the "Engineer"), approximately 2,865 acres of the District lie within the 100-year flood plain of tributaries of Caney, Peach and White Oak Creeks. The Montgomery County Engineer is charged with overseeing minimum flood slab elevations for the development of areas lying within the floodplain. According to the Engineer, a portion of this area has been developed. The District cannot predict what the effect the floodplain will have on future development of the District nor what effect a flood may have on the developed portion of the District.

### Management of the District

The District is governed by the Board of Directors, consisting of five directors, which has management control over and management supervision of all affairs of the District. Directors are elected to serve four-year staggered terms. Elections are held within the District in May of each even-numbered year. The current members and officers of the Board are:

| <u>Name</u>            | <u>Title</u>   | <u>Term Expires</u> |
|------------------------|----------------|---------------------|
| William B. Smith       | President      | 2024                |
| Jerry R. Vernon        | Vice President | 2024                |
| Dorothy Rawlinson      | Secretary      | 2022                |
| Tony A. Martinez, Jr.  | Treasurer      | 2022                |
| Matthew James Peterson | Director       | 2024                |

The District employs a staff of twenty-three to manage the operation of the District, including the following full-time personnel:

| <u>Name</u>      | <u>Title</u>    | <u>Years With The District</u> |
|------------------|-----------------|--------------------------------|
| Richard McDonald | General Manager | 30 Years (a)                   |
| Jan Rice         | Office Manager  | 34 Years                       |

(a) Twelve years as general manager.

In addition, the District contracts for the services indicated below:

Auditor - The District's audited financial statements for the year ended May 31, 2020 were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, Houston, Texas.

Bond Counsel - The District employs Johnson Petrov LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bond. Johnson Petrov LLP also serves as General Counsel to the District. See "LEGAL MATTERS.

Disclosure Counsel - Orrick, Huntington & Sutcliffe LLP, Houston, Texas.

Financial Advisor - The District's financial advisor is Blich Associates, Inc., Houston, Texas.

Engineer - The consulting engineer for the District is LJA Engineering, Inc., Houston, Texas.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Tammy McRae, Montgomery County Tax Collector.

### **Development**

As of November 2020, there are 4,614 active water connections, including a number of multi-family meters, to the District's waterworks and wastewater system. Development within the District consists primarily of residential growth in various subdivisions throughout the District and commercial activity concentrated primarily among the U.S. Highway 59 corridor. Commercial development within the District is found in several strip centers. There is no principal developer within the District. See "TAX DATA--Principal Taxpayers." There are approximately 6,100 acres with service availability within the District. Another approximately 1,790 acres are considered developable, but are currently undeveloped.



Photographs Taken in the District (November 2020)











## DISTRICT DEBT

### Debt Statement

|   |                      |     |
|---|----------------------|-----|
| 2020 Taxable Assessed Valuation (100% of Market Value)    | \$549,909,949        | (a) |
| Direct Debt   |                      |     |
| Outstanding Bonds (As of November 1, 2020)                | \$34,433,524         |     |
| Less: The Refunded Bonds                                  | (8,650,000)          |     |
| The Bonds   | <u>8,615,000</u>     |     |
| Total Direct Debt   | \$34,398,524         |     |
| Estimated Overlapping Debt                                | <u>76,620,764</u>    | (b) |
| Direct and Estimated Overlapping Debt                     | <u>\$111,019,288</u> |     |
| Direct Debt Ratios:                                       |                      |     |
| Direct Debt to Value                                      | 6.26%                |     |
| Direct & Estimated Overlapping Debt to Value              | 20.19%               |     |
| Average Annual Debt Service Requirements (2021/42)        | \$2,212,330          |     |
| Maximum Annual Debt Service Requirements (2042)           | \$2,292,188          |     |
| Fund Balances as of October 31, 2020 (Cash & Investments) |                      |     |
| General Fund  | \$3,495,344          |     |
| Debt Service Fund   | \$2,247,271          |     |
| Capital Projects Fund                                     | \$9,064,748          |     |

(a) Certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "DISTRICT DEBT--Estimated Overlapping Debt."

### Estimated Overlapping Debt

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

| <u><i>Jurisdiction</i></u>                   | <u><i>Debt As Of<br/>November 1, 2020</i></u> | <u><i>Overlapping<br/>Percent</i></u> | <u><i>Overlapping<br/>Amount</i></u> |
|--|---|---------------------------------------|--------------------------------------|
| Lone Star College System                     | \$542,290,000                                 | 0.245%                                | \$1,328,611                          |
| Montgomery County                            | 509,380,000                                   | 0.888%                                | 4,523,294                            |
| New Caney Independent School District        | 504,345,000                                   | 11.136%                               | 56,163,859                           |
| Valley Ranch Town Center Management District | 14,605,000                                    | 100.000%                              | <u>14,605,000</u>                    |
| Estimated Overlapping Debt                   |   |                                       | \$76,620,764                         |
| The District (Includes the Bonds)            |   |                                       | <u>34,398,524</u>                    |
| Total Direct & Estimated Overlapping Debt    |   |                                       | <u>\$111,019,288</u>                 |

**Debt Service Schedule**

The following sets forth the debt service requirements on the District's Outstanding Bonds and the Bonds. (Note: Totals may not add due to rounding)

| <u>Year</u> | <u>Outstanding Debt Service</u> | <u>Refunded Debt Service</u> | <u>The Bonds Principal</u> | <u>The Bonds Interest</u> | <u>The Bonds Total D/S</u> | <u>Grand Total Debt Service</u> |
|-------------|---------------------------------|------------------------------|----------------------------|---------------------------|----------------------------|---------------------------------|
| 2021        | 2,291,369                       | (\$346,700)                  | \$20,000                   | \$154,950                 | \$174,950                  | \$2,119,619                     |
| 2022        | 2,287,594                       | (617,575)                    | 295,000                    | 201,975                   | 496,975                    | 2,166,994                       |
| 2023        | 2,282,544                       | (629,025)                    | 315,000                    | 192,825                   | 507,825                    | 2,161,344                       |
| 2024        | 2,278,731                       | (634,563)                    | 335,000                    | 183,075                   | 518,075                    | 2,162,244                       |
| 2025        | 2,276,319                       | (633,925)                    | 345,000                    | 172,875                   | 517,875                    | 2,160,269                       |
| 2026        | 2,277,219                       | (641,950)                    | 360,000                    | 162,300                   | 522,300                    | 2,157,569                       |
| 2027        | 2,276,356                       | (1,138,375)                  | 880,000                    | 143,700                   | 1,023,700                  | 2,161,681                       |
| 2028        | 2,273,953                       | (1,152,975)                  | 920,000                    | 116,700                   | 1,036,700                  | 2,157,678                       |
| 2029        | 2,274,353                       | (1,165,575)                  | 965,000                    | 93,250                    | 1,058,250                  | 2,167,028                       |
| 2030        | 2,276,741                       | (1,170,647)                  | 990,000                    | 73,700                    | 1,063,700                  | 2,169,794                       |
| 2031        | 2,280,034                       | (1,187,288)                  | 1,030,000                  | 53,500                    | 1,083,500                  | 2,176,247                       |
| 2032        | 2,279,619                       | (1,200,750)                  | 1,065,000                  | 32,550                    | 1,097,550                  | 2,176,419                       |
| 2033        | 2,280,284                       | (1,210,922)                  | 1,095,000                  | 10,950                    | 1,105,950                  | 2,175,313                       |
| 2034        | 2,278,100                       |                              |                            |                           |                            | 2,278,100                       |
| 2035        | 2,281,688                       |                              |                            |                           |                            | 2,281,688                       |
| 2036        | 2,280,300                       |                              |                            |                           |                            | 2,280,300                       |
| 2037        | 2,282,475                       |                              |                            |                           |                            | 2,282,475                       |
| 2038        | 2,283,619                       |                              |                            |                           |                            | 2,283,619                       |
| 2039        | 2,286,156                       |                              |                            |                           |                            | 2,286,156                       |
| 2040        | 2,284,563                       |                              |                            |                           |                            | 2,284,563                       |
| 2041        | 2,289,969                       |                              |                            |                           |                            | 2,289,969                       |
| 2042        | <u>2,292,188</u>                |                              |                            |                           |                            | <u>2,292,188</u>                |
|             | <u>\$50,194,172</u>             | <u>(\$11,730,269)</u>        | <u>\$8,615,000</u>         | <u>\$1,592,350</u>        | <u>\$10,207,350</u>        | <u>\$48,671,253</u>             |

Average Annual Debt Service (2021/2042) \$ 2,212,330  
 Maximum Annual Debt Service (2042) \$ 2,282,188

## Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the District's Debt Service Fund. Such information has been prepared based upon information obtained from the District's audited financial statements and other information provided by the District. Reference is made to such statements for further and complete information.

|                      | <i><b>Fiscal Years Ended May 31,</b></i> |                    |                    |                    |                    |
|----------------------|--|--------------------|--------------------|--------------------|--------------------|
|                      | <u><b>2020</b></u>                       | <u><b>2019</b></u> | <u><b>2018</b></u> | <u><b>2017</b></u> | <u><b>2016</b></u> |
| <b>Revenues</b>      |  |                    |                    |                    |                    |
| Ad Valorem Taxes     | \$2,277,797                              | \$2,275,213        | \$1,900,082        | \$1,685,830        | \$1,436,739        |
| Penalties            | 65,531                                   | 74,394             | 58,859             | 93,942             | 75,294             |
| Other Revenues       | <u>5,332</u>                             | <u>4,807</u>       | <u>2,679</u>       | <u>1,472</u>       | <u>2,559</u>       |
| Total Revenues       | \$2,348,660                              | \$2,354,414        | \$1,961,620        | \$1,781,244        | \$1,514,592        |
| <b>Expenditures</b>  |  |                    |                    |                    |                    |
| Bond Principal       | \$1,070,000                              | \$895,000          | \$875,000          | \$735,000          | \$610,000          |
| Bond Interest        | 1,240,969                                | 894,812            | 830,769            | 732,762            | 607,007            |
| Cost of Collections  | <u>51,382</u>                            | <u>46,352</u>      | <u>39,748</u>      | <u>45,675</u>      | <u>40,154</u>      |
| Total Expenses       | <u>\$2,362,351</u>                       | <u>\$1,836,164</u> | <u>\$1,745,517</u> | <u>\$1,513,437</u> | <u>\$1,257,161</u> |
| Net Revenues         | (\$13,691)                               | \$518,250          | \$216,103          | \$267,807          | \$257,431          |
| <br>                 |  |                    |                    |                    |                    |
| Fund Balance, June 1 | \$2,761,983                              | \$2,143,145        | \$1,927,042        | \$1,517,454        | \$1,177,373        |
| Bond Sale (Net)      | <u>0</u>                                 | <u>100,588</u>     | <u>0</u>           | <u>141,781</u>     | <u>82,650</u>      |
| Fund Balance, May 31 | <u>\$2,748,292</u>                       | <u>\$2,761,983</u> | <u>\$2,143,145</u> | <u>\$1,927,042</u> | <u>\$1,517,454</u> |
| Cash & Inv., May 31  | <u>\$2,748,292</u>                       | <u>\$2,762,733</u> | <u>\$2,143,895</u> | <u>\$1,927,792</u> | <u>\$1,522,080</u> |

## TAX PROCEDURES

### Authority To Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the District's Outstanding Bonds, the 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 Board is also authorized to levy and collect annual ad valorem taxes for the administration, operation and maintenance of the District and its properties and for the payment of certain contractual obligations other than bonds if such taxes are authorized by vote of the District's electors at an election. The District has never had a maintenance tax authorized by the voters.

### Exempt Property

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; however, no effort is expected to be made to levy taxes against tangible or

intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; non-profit cemeteries; certain household goods, family supplies and personal effects; and certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is exempt to between \$5,000 and \$12,000 depending on the disability rating of the veteran. State law further mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled such exemption on the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization or donated at some cost to the disabled veteran in the form of a cash payment, a mortgage or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead as of the date the donation is made. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. Finally, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

If approved by the Board or through a process of petition and referendum by the District's voters, residence homesteads of certain persons who are disabled or at least 65 years old are exempt to the extent of \$3,000 or such higher amount, as the Board or the District's voters may approve. The District's tax assessor 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. The District currently grants a \$25,000 homestead exemption to persons who are 65 years of age or older. No exemption is currently granted to disabled homestead owners.

The Board also may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the granting of the homestead exemption would impair the obligation or the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. The Board currently grants a 20% homestead exemption.

Montgomery County may designate all or part of the area within the District as a reinvestment zone, and the District, Montgomery County, New Caney Independent School District, Lone Star College System or the City of Houston may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date.

## **Appraisal of Taxable Property**

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State of Texas. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, the county, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district, and of the county. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Montgomery County, including the District, are included in the Montgomery Central Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Property Tax Code.

## **Assessment and Levy**

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented, and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of houses at inventory level in future years could reduce the assessed value of developer and builder house inventory within the District. Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, agriculture and hunting or recreational leases. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate.

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

The chief appraiser must give written notice to each owner if the appraised value of his property is greater than it was in the preceding year, if the appraised value of the property is greater than the value rendered by the property owner, or if the property was not on the appraisal roll in the preceding year. In addition, the chief appraiser must give written notice to each property owner whose property was reappraised in the current year or if ownership of the property changed during the preceding year. The Appraisal Review Board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board by filing suit in Texas district court. Prior to such appeal and prior to the delinquency date, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property.

The rate of taxation is set by the Board of the District based upon the valuation of property within the District as of the preceding January 1 and based upon the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.



The District is responsible for the levy and collection of its taxes and will continue to do so unless the Board or the qualified voters of the District or of Montgomery County at an election held for such purpose determines to transfer such functions to the Appraisal District or another taxing unit.

The District is required to publish a notice of, and hold a public hearing on the tax rate proposed to be levied in the current year. The notice must set forth a comparison of the tax rate proposed for the current year to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates imposes a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

### **Collection**

Taxes are due on receipt of the tax bill and generally become delinquent after January 31 of the following year. However, a person over 65 years of age is entitled by law to pay current taxes on his residence homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residence homestead. The date of the delinquency of a tax bill may be postponed if the tax bill is mailed after January 10. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to June 30 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, if the District engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1.

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. The District has a statutory lien for unpaid taxes on real property against which the taxes are assessed. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by effects of the foreclosure sale price attributable to market conditions, by taxpayer redemption rights, or by bankruptcy proceedings which restrain the collection of a taxpayer's debts.

### **Rollback of Operation and Maintenance Tax Rate**

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

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

### *Special Taxing Units*

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

### *Developed Districts*

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

### *Developing Districts*

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

### *The District*

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

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

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. 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 the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

### **Reappraisal of Property after Disaster**

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on 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 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.

### **Temporary Tax Exemptions for Property Damaged by Disaster**

The Texas Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible time frame by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised. The Attorney General of Texas issued opinion KP-0299 on April 13, 2020 stating that purely non-physical economic damage to property is not eligible for this temporary tax exemption.

## **TAX DATA**

### **General**

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct 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 may be authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. 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 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, its debt service requirements and available funds.

### **Tax Collection History**

The following table indicates the collection history for taxes assessed by the District:

| <b><u>Tax Year</u></b> | <b><u>Assessed Valuation</u></b> | <b><u>Tax Rate(a)</u></b> | <b><u>Tax Levy</u></b> | <b><u>Percent Current</u></b> | <b><u>Percent Total</u></b> | <b><u>Yr End May 31</u></b> |
|------------------------|----------------------------------|---------------------------|------------------------|-------------------------------|-----------------------------|-----------------------------|
| 1999                   | \$113,314,448                    | \$0.5076                  | \$570,083              | 82.56%                        | 94.50%                      | 2000                        |
| 2000                   | 120,610,126                      | 0.5076                    | 604,775                | 84.07%                        | 96.37%                      | 2001                        |
| 2001                   | 125,023,135                      | 0.5076                    | 632,771                | 87.75%                        | 95.50%                      | 2002                        |
| 2002                   | 129,254,177                      | 0.5076                    | 658,900                | 82.27%                        | 97.32%                      | 2003                        |
| 2003                   | 131,525,595                      | 0.5076                    | 661,196                | 85.64%                        | 99.34%                      | 2004                        |
| 2004                   | 136,121,338                      | 0.5076                    | 692,625                | 85.55%                        | 99.47%                      | 2005                        |
| 2005                   | 136,561,881                      | 0.5376                    | 739,189                | 87.56%                        | 103.42%                     | 2006                        |
| 2006                   | 139,978,881                      | 0.5376                    | 752,644                | 88.74%                        | 101.77%                     | 2007                        |
| 2007                   | 151,820,094                      | 0.5862                    | 901,652                | 89.11%                        | 98.11%                      | 2008                        |
| 2008                   | 161,934,103                      | 0.5862                    | 958,565                | 89.06%                        | 98.24%                      | 2009                        |
| 2009                   | 169,000,535                      | 0.6200                    | 1,049,676              | 86.73%                        | 95.14%                      | 2010                        |
| 2010                   | 169,528,674                      | 0.7100                    | 1,210,407              | 89.13%                        | 98.70%                      | 2011                        |
| 2011                   | 172,547,033                      | 0.7100                    | 1,224,234              | 88.92%                        | 96.35%                      | 2012                        |
| 2012                   | 179,417,545                      | 0.7100                    | 1,273,867              | 90.47%                        | 99.32%                      | 2013                        |
| 2013                   | 180,851,831                      | 0.7100                    | 1,284,048              | 90.83%                        | 101.00%                     | 2014                        |
| 2014                   | 185,349,383                      | 0.6797                    | 1,261,579              | 92.49%                        | 101.77%                     | 2015                        |
| 2015                   | 210,258,768                      | 0.6797                    | 1,432,225              | 92.97%                        | 100.32%                     | 2016                        |
| 2016                   | 244,172,350                      | 0.6797                    | 1,661,464              | 93.35%                        | 101.47%                     | 2017                        |
| 2017                   | 320,849,446                      | 0.5994                    | 1,929,520              | 93.61%                        | 98.47%                      | 2018                        |
| 2018                   | 415,279,691                      | 0.5700                    | 2,372,276              | 91.41%                        | 95.91%                      | 2019                        |
| 2019                   | 422,190,943                      | 0.5300                    | 2,237,612              | 93.89%                        | 101.80%                     | 2020                        |
| 2020                   | 549,909,949                      | 0.5000                    | 2,749,550              | In                            | Process                     | 2021                        |

## Principal Taxpayers

The following table, sets forth the District's principal taxpayers, was provided by the District's Tax Assessor/Collector based upon the 2020 and 2019 certified tax rolls (which reflect ownership of property as of January 1, 2020 and January, 2019, respectively) according to the records of the Appraisal District.

| <u>Name of Taxpayer</u>           | <u>Type of Property</u> | <u>2020<br/>Ass'd Value</u> | <u>% of<br/>Total</u> | <u>2019<br/>Ass'd Value</u> | <u>% of<br/>Total</u> |
|-----------------------------------|-------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
| Valley Ranch Town Center One Ltd  | Shopping Center         | \$43,404,450                | 7.89%                 | \$43,549,870                | 10.27%                |
| The Pointe Valley Ranch Town Cntr | Commercial              | 31,500,000                  | 5.73%                 | (a)                         |                       |
| Valley Ranch Town Center Two Ltd  | Commercial              | 30,434,510                  | 5.53%                 | 27,013,740                  | 6.37%                 |
| Wal-Mart Real Estate Business Tr  | Retail                  | 24,342,670                  | 4.43%                 | 27,818,093                  | 6.56%                 |
| Valley Ranch Town Center Ltd      | Shopping Center         | 13,316,180                  | 2.42%                 | 15,632,370                  | 3.69%                 |
| Valley Ranch Town Center Holdings | Acreage                 | 8,850,030                   | 1.61%                 | 7,391,590                   | 1.74%                 |
| VR Town Center Three LLC          | Retail                  | 6,308,580                   | 1.15%                 | 6,308,580                   | 1.49%                 |
| Kroger                            | Grocery Store           | 6,189,775                   | 1.13%                 | 28,555,113                  | 6.73%                 |
| 2ML Real Estate Interest, Inc     | Commercial              | 4,581,990                   | 0.83%                 | 4,253,220                   | 1.00%                 |
| Entergy Texas Inc                 | Electric Utility        | 4,301,790                   | 0.78%                 | 4,106,440                   | 0.97%                 |
| Caney Holdings LLC                | Commercial              | (a)                         |                       | 4,580,040                   | 1.08%                 |
| Total--Top Ten                    |                         | <u>\$173,229,975</u>        | <u>31.50%</u>         | <u>\$169,209,056</u>        | <u>39.91%</u>         |

(a) Not among top ten this year.

## 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 if no growth in the District's tax base occurs beyond the 2020 Taxable Value (\$549,909,949). The calculations assume collection of 98% of taxes levied and the sale of no additional bonds by the District.

|  |             |
|--|-------------|
| Average Annual Debt Service Requirements (2021/2042)   | \$2,212,330 |
| Tax Rate of \$0.411 on the 2020 Taxable Value produces | \$2,214,927 |
| Annual Debt Service Requirements (2042)                | \$2,292,188 |
| Tax Rate of \$0.426 on the 2020 Taxable Value produces | \$2,295,764 |

**Analysis of Tax Base**

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations for each of the years indicated:

|                          | <u>2020 Amount</u>   | <u>2020 %'s</u> | <u>2019 Amount</u>   | <u>2019 %'s</u> |
|--------------------------|----------------------|-----------------|----------------------|-----------------|
| Land                     | \$229,577,484        | 30.54%          | \$182,562,831        | 29.50%          |
| Improvements             | 442,960,050          | 58.93%          | 359,718,411          | 58.12%          |
| Personal Property        | <u>79,108,157</u>    | 10.52%          | <u>76,668,956</u>    | 12.39%          |
| Subtotal                 | \$751,645,691        |                 | \$618,950,198        |                 |
| Less: Exemptions         | <u>(232,869,079)</u> |                 | <u>(202,755,664)</u> |                 |
| Total Taxable Values (a) | <u>\$518,776,612</u> |                 | <u>\$416,194,534</u> |                 |
|                          | <u>2018 Amount</u>   | <u>2018 %'s</u> | <u>2017 Amount</u>   | <u>2017 %'s</u> |
| Land                     | \$183,335,215        | 31.57%          | \$150,486,405        | 31.14%          |
| Improvements             | 337,589,243          | 58.14%          | 289,473,660          | 59.90%          |
| Personal Property        | <u>59,769,266</u>    | 10.29%          | <u>43,317,093</u>    | 8.96%           |
| Subtotal                 | \$580,693,724        |                 | \$483,277,158        |                 |
| Less: Exemptions         | <u>(173,451,892)</u> |                 | <u>(172,691,638)</u> |                 |
| Total Taxable Value      | <u>\$407,241,832</u> |                 | <u>\$310,585,520</u> |                 |

(a) Based on original certified valuations only.

## Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, 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.

| <u>Taxing Entities</u>                           | <u>2020 Tax Rates</u> |
|--|-----------------------|
| Lone Star College System                         | \$0.1078              |
| Montgomery County                                | 0.4312                |
| Montgomery Co. Emergency Services District No. 6 | 0.1000                |
| Montgomery Co. Hospital District                 | 0.0588                |
| New Caney Independent School District            | <u>1.4761</u>         |
| Overlapping Taxes                                | \$2.1739              |
| The District                                     | <u>0.5000</u>         |
| Total Direct & Overlapping Taxes                 | <u>\$2.6739</u>       |

**Note: Properties located within the Valley Ranch Town Center Management District pay an additional management district tax rate of \$1.000 per \$100 assessed valuation for 2020.**

## THE SYSTEM

### Regulation

The water and wastewater facilities serving land within the District (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ and the City of Houston. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

Operation of the District's System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

### Description of the System

#### Wastewater System

The System's wastewater facilities consist of sanitary sewer collection facilities and a wastewater treatment plant. Wastewater treatment is provided by the District's existing 2.00 million gallons per day ("mgd") wastewater treatment plant. The District discharges treated effluent into Caney Creek, a tributary of Lake Houston.

Proceeds from the sale of the Outstanding Bonds were used to finance the cost of wastewater collection facilities to serve the then-existing development within the District, including the first 2.000 mgd phase of a new wastewater treatment

plant and associated facilities, currently on-line. According to the Engineer, the District's existing wastewater collection system is sufficient to serve the existing development within the District.

**Water System**

The System's water facilities include three wells with a combined capacity of 3,725 gallons per minute (“gpm”) and 1,764,000 gallons of ground storage capacity. The District also has 90,000 gallons of hydropneumatic tank capacity and a 8,600 gpm of booster pump capacity. A new 750,000 gallon elevated water storage tank is currently under construction. The water facilities are adequate for the existing connections, according to the TCEQ’s minimum criteria. In addition, the District has entered into a contract with the San Jacinto River Authority in order to satisfy the surface water conversion requirements of the Lone Star Groundwater Conservation District.

**Stormwater Drainage**

The District does not provide for stormwater drainage and flood control improvements. Montgomery County has the responsibility for providing such improvements and facilities for the land within the District.

**Rate Order**

The District’s utility rate order, subject to change from time to time by Board, is summarized in part below and was passed by the Board on June 1, 2014:

|                                  |                      |
|----------------------------------|----------------------|
| <b><i>-Water Rates(a)-</i></b>   |                      |
| First 3,000 gallons              | \$12.00 (Minimum)    |
| Next 1,000 gallons               | \$2.50/1,000 gallons |
| Next 1,000 gallons               | \$2.75/1,000 gallons |
| Next 1,000 gallons               | \$3.00/1,000 gallons |
| Next 4,000 gallons               | \$3.25/1,000 gallons |
| Next 2,000 gallons               | \$3.75/1,000 gallons |
| Next 3,000 gallons               | \$4.00/1,000 gallons |
| Next 5,000 gallons               | \$4.25/1,000 gallons |
| Next 30,000 gallons              | \$4.75/1,000 gallons |
| All over 50,000 gallons          | \$5.75/1,000 gallons |
| <b><i>-Sewer Rates-</i></b>      |                      |
| First 3,000 gallons of water     | \$14.00 (Minimum)    |
| Next 17,000 gallons              | \$2.50/1,000 gallons |
| All over 20,000 gallons of water | \$3.00/1,000 gallons |

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(a) In order to obtain the necessary revenues required to pay the cost to comply with the Lone Star Groundwater Fees and the San Jacinto River Authority Plan Fees, the District assesses a specific charge to its customers equal to one hundred ten percent (115%) of the Lone Star Groundwater Fees and the San Jacinto River Authority Plan Fees per 1,000 gallons of water used, rounded to the nearest cent. The additional fifteen percent (15%) charge represents an administrative charge for the District costs associated with the Lone Star Groundwater Fees and the San Jacinto River Authority Plan Fees and to provide for water pumped and subject to such fees, but not accounted for billings to the District. Each customer's billing statement includes line items reflected and "Lone Star Fee" and "SJRA Fee" or such other similar language. Such fees are calculated based upon the customer's actual water usage for the previous month (total number of gallons divided by 1,000), multiplied by the current pumpage fee assessed by Lone Star and SJRA plus fifteen percent (15%) rounded to the next highest penny.



## Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements (except for the six-month period ended November 30, 2020, based on bookkeeping reports), reference to which is made for further and complete information.

|                        | <i>6/1/2020 to</i> |                    | <i>Fiscal Year Ended May 31</i> |                    |                    |                    |
|------------------------|--------------------|--------------------|---------------------------------|--------------------|--------------------|--------------------|
|                        | <u>11/30/20(a)</u> | <u>2020</u>        | <u>2019</u>                     | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        |
| Revenues               |                    |                    |                                 |                    |                    |                    |
| Water Revenues         | \$884,550          | \$1,616,424        | \$1,434,181                     | \$1,489,295        | \$1,347,662        | \$1,223,695        |
| Sewer Revenues         | 633,574            | 1,147,645          | 1,095,866                       | 1,079,591          | 1,027,113          | 974,147            |
| SJRA & Lone Star Fees  | 640,777            | 1,060,730          | 943,865                         | 926,548            | 853,195            | 744,327            |
| Penalty & Interest     | 45,613             | 70,832             | 80,128                          | 75,030             | 76,307             | 70,872             |
| Tap Fees               | 150,091            | 271,840            | 325,588                         | 330,449            | 353,192            | 320,619            |
| Interest Earned, Other | <u>9,585</u>       | <u>38,568</u>      | <u>106,629</u>                  | <u>37,243</u>      | <u>33,328</u>      | <u>50,863</u>      |
| Total Revenues         | \$2,364,190        | \$4,206,039        | \$3,986,257                     | \$3,938,156        | \$3,690,797        | \$3,384,523        |
| Expenses               |                    |                    |                                 |                    |                    |                    |
| Personnel              | \$784,825          | \$1,587,766        | \$1,494,806                     | \$1,370,173        | 1,271,077          | 1,163,193          |
| Professional Fees      | (72,029)           | 83,803             | 99,843                          | 86,382             | 96,366             | 104,117            |
| Utilities              | 147,406            | 250,582            | 241,527                         | 241,403            | 238,880            | 234,636            |
| Repairs & Maintenance  | 99,142             | 307,163            | 218,832                         | 279,429            | 259,795            | 230,722            |
| SJRA & Lone Star Fees  | 618,088            | 1,111,580          | 1,066,344                       | 1,006,052          | 870,454            | 763,737            |
| Other                  | <u>372,521</u>     | <u>594,229</u>     | <u>518,818</u>                  | <u>491,481</u>     | <u>470,013</u>     | <u>401,089</u>     |
| Total Expenditures     | \$1,949,953        | \$3,934,123        | \$3,640,170                     | \$3,474,920        | \$3,206,585        | \$2,897,494        |
| Net Revenue            | <u>\$414,237</u>   | <u>\$271,916</u>   | <u>\$346,087</u>                | <u>\$463,236</u>   | <u>\$484,212</u>   | <u>\$487,029</u>   |
| Other Sources (Uses)   |                    |                    |                                 |                    |                    |                    |
| Capital Outlay         | (75,609)           | (264,018)          | (111,526)                       | (177,909)          | (77,782)           | (276,340)          |
| Fund Balance, June     |                    | <u>\$3,128,998</u> | <u>\$2,894,437</u>              | <u>\$2,609,110</u> | <u>\$2,202,680</u> | <u>\$1,991,991</u> |
| Fund Balance, May 31   |                    | <u>\$3,136,896</u> | <u>\$3,128,998</u>              | <u>\$2,894,437</u> | <u>\$2,609,110</u> | <u>\$2,202,680</u> |
| Cash/Invests, June 1   |                    | <u>\$3,153,133</u> | <u>\$3,154,786</u>              | <u>\$2,869,737</u> | <u>\$2,449,128</u> | <u>\$2,354,683</u> |
| Cash as % of Ann Exp   |                    | 80.15%             | 86.67%                          | 82.58%             | 76.38%             | 81.26%             |
| Water Cust at May 31   |                    | 4,093              | 3,849                           | 3,493              | 3,738              | 3,600              |
| Sewer Cust at May 31   |                    | 3,873              | 3,765                           | 3,685              | 3,556              | 3,573              |

(a) Unaudited figures; summarized from bookkeeping report.

## RISK FACTORS

### General

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Montgomery County, Texas, the City of Houston or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. At this point in the development of the District, the potential increase in taxable values of property is directly related to the demand for commercial and residential development, not only because of general economic conditions, but also due to particular factors discussed below.

The economy of Montgomery County and the southeast Texas regional area is largely dependent on the petrochemical industry. Recent decreases in the price of oil have the potential to decrease housing prices and negatively effect the Montgomery County economy. The District can make no prediction on what effect current or future oil prices may have on assessed valuations in the District or on the Montgomery County economy generally.

### Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tornadoes, flooding, 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 Houston area, including Harris and Montgomery Counties, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days.

According to the District, approximately 100 homes within the District and were flooded with only about one home still not reconnected to the System. There was no interruption of water and sewer service resulting from Hurricane Harvey and additional expenses for generator fuel and overtime has been reimbursed by FEMA. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region.

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

### Specific Flood Type Risks

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

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

### **Factors Affecting Taxable Values and Tax Payments**

*Economic Factors:* The growth of taxable values in the District is directly related to the vitality of the commercial development and housing and building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the economy.

*Maximum Impact on District Rates:* Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2020 Taxable Valuation is \$549,909,949. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement (2042) is \$2,292,188 and the average annual debt service requirements (2021/2042) is \$2,212,330. Assuming no increase or decrease from the 2020 Taxable Valuation and no use of funds other than tax collections, tax rates of \$0.426 and \$0.411 per \$100 assessed valuation at a 98% collection rate against the 2020 Assessed Valuation, respectively, would be necessary to pay such debt service requirements. The Board levied a tax rate of \$0.500 for debt service purposes for tax year 2020. See "DISTRICT DEBT--Debt Service Schedule" and "TAX DATA--Tax Rate Calculations."

### **Overlapping Tax Rates**

Consideration should be given to the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The combination of the District's tax rate and the overlapping taxing entities' tax rates is higher than the combined tax rates levied upon certain other comparable developments in the market area. Consequently, an increase in the District's tax rate above those anticipated above may have an adverse impact on future development or the construction of taxable improvements in the District. See "DISTRICT DEBT--Estimated Overlapping Debt" and "TAX DATA--Estimated Overlapping Taxes."

### **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 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 issued a series of executive orders relating to COVID-19 preparedness and mitigation. Due to a recent spike in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. For example, Executive Order GA-28, which was issued on June 26, 2020, and remains in effect until modified, amended, rescinded or superseded by the Governor, established occupancy limits to 50 percent for most businesses in Texas, limited bars and similar establishments to drive-through, pickup or delivery options, and made most outdoor gatherings of more than 100 people subject to approval by local authorities, subject to exceptions outlined in the order. Businesses otherwise subject to a 50 percent occupancy limit and located in a county meeting certain Department of State Health Services criteria are eligible to operate at up to 75 percent of occupancy. In separate orders, the Governor imposed a moratorium on elective surgeries in numerous Texas counties including Harris, Travis, Bexar and Dallas Counties. The Governor retains the authority to impose additional restrictions on activities. Under Executive Order GA-28, for the remainder of the 2019-2020 school year, public schools may resume operations in the summer under protocols outlined in guidance from the TEA. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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

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

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

### **Tax Collection Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of tax collection procedures 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. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, 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, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

## **Registered Owners' Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the registered owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of 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 and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the registered owners may be further 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. For example, a Chapter IX bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the registered owners.

## **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. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivisions.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner 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 owner's claim against a district.

## **Environmental Regulation and Air Quality**

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; and
- Requiring remedial action to prevent or mitigate pollution.

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

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston 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, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

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

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

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

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

*Water Supply & Discharge Issues:* Water supply and discharge regulations that 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 non-stormwater discharges into surface water in the state. It has a 5-year permit term and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must also 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 the United States Army Corps of Engineers (“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 various 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 became final on December 23, 2019.

On January 23, 2020, the EPA and USACE finalized a replacement definition of “waters of the United States.” The new definition outlines the categories of waters that would be considered “waters of the United States,” including traditional navigable waters, perennial and intermittent tributaries to those waters, certain lakes, ponds, and impoundments and wetlands adjacent to jurisdiction waters. The new rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall; groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; farm and stock watering ponds; and waste treatment systems. The new rule will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

Due to possible litigation challenging the new rule, there still remains significant 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 permitting requirements.

## **Future Debt**

The District has \$19,090,000 in authorized but unissued unlimited tax bonds. The District has the right to issue such bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. The remaining authorized but unissued bonds may be issued by the District from time to time as needed.

The District expects to issue approximately \$15,000,000 additional bonds within the next twelve months.

## **Proposed Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

## **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.

## **Marketability**

The District has no understanding (other than the initial reoffering yields) with the initial purchaser of the Bonds (the “Underwriter”) regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of other bonds which are more generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS – Prices and Marketability.”

## **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General, however, does not pass upon or guarantee the security of the Bonds as an investment, nor has the Attorney General passed upon the adequacy or accuracy of the information contained in this Official Statement.

## **LEGAL MATTERS**

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Johnson Petrov LLP, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under “TAX EXEMPTION.” Such opinions will express no opinions with respect to the sufficiency of the security for or the marketability of the Bonds.



## **Legal Review**

Bond Counsel has reviewed the information appearing in this Official Statement under the sections captioned: “THE BONDS” (except the subsection “--Book-Entry-Only System”), “THE DISTRICT--Authority,” “TAX PROCEDURES--Authority,” “LEGAL MATTERS - Legal Opinions,” “LEGAL MATTERS--Legal Review,” “TAX MATTERS--Tax Exemption,” and “CONTINUING DISCLOSURE OF INFORMATION” (except the subsection “--Compliance with Prior Undertakings”) solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein, other than the matters discussed immediately above.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

## **No-Litigation Certificate**

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

## **No Material Adverse Change**

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

## **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District secured by the proceeds of an ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District and, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the legal opinion of Bond Counsel to the effect that (1) the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and (2) are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

## TAX MATTERS

### Opinion

Bond Counsel will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes.

Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, yield and other restrictions on the investment of gross proceeds and other amounts, and the arbitrage rebate requirement that certain earnings on gross proceeds be rebated to the federal government. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The District has covenanted to comply with certain procedures and has made certain representations and certifications designed to assure compliance with these Code requirements. In rendering its opinion, Bond Counsel will rely on these covenants, on representations and certifications of the District relating to matters solely within its knowledge (which Bond Counsel has not independently verified) and will assume continuing compliance by the District.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the “Service”). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Bonds has been sought from the Service, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service’s view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit were to be commenced, under current procedures, the Service would treat the District as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Bonds, the District might have different or conflicting interests from those of the owners of the Bonds.

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

The opinions set forth above are based on existing law and Bond Counsel’s knowledge of relevant facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Bonds. Further, Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Bonds. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Bonds may affect the tax-exempt status of interest on the Bonds.

## **Original Issue Discount**

Certain maturities of the Bonds (the “Discount Bonds”) may be offered and sold to the public at an “original issue discount” (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Bonds. In general, the issue price of Discount Bonds is the first price at which a substantial amount of Discount Bonds of the same maturity are sold to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers).

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond’s period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the District encounters financial difficulties, and it is treated as interest earned by cash-basis owners, even though no cash corresponding to the accrual is received in the year of accrual. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

## **Original Issue Premium**

Certain maturities of the Bonds (the “Premium Bonds”) may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity (“Bond Premium”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

## **Collateral Tax Consequences Summary**

The following discussion is a brief discussion of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification, retroactively. Prospective investors should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement

benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. PROSPECTIVE INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL 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, owners 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 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 owner 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 of 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.

### **Changes in Law**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **NOT Qualified Tax-Exempt Obligations for Financial Institutions**

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

## **CONTINUING DISCLOSURE OF INFORMATION**

The District, in the Bond Order, has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available free of charge from the Municipal Securities Rule Making Board (“MSRB”) via the Electronic Municipal Market Access (“EMMA”) system at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Annual Reports**

The District will provide certain updated financial information and operating data to certain information vendors annually. 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 headings “SUMMARY--Financial Highlights;” “DEVELOPMENT OF THE DISTRICT;” “DISTRICT DEBT--Estimated Overlapping Debt” and “--Historical Operations of the Debt Service Fund;” “TAX DATA--Tax Collection History,” “--Principal Taxpayers,” “--Analysis of Tax Base,” “--Estimated Overlapping Taxes” and “--Tax Rate Calculations;” “THE SYSTEM--Historical Operations of the General Operating Fund” and “--Rate Order;” and “APPENDIX A--Financial Statements of the District.”

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

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

## **Event Notices**

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 holders 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, 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 trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry or an order confirming a plan or reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term “Financial Obligation” shall mean, for purposes of the events in clauses (15) and (16), 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) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends the words used in clauses (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the “2018 Release”) and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

#### **Availability of Information From EMMA**

Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). The District has agreed in the Bond Order to provide the foregoing information only to the MSRB through EMMA. The information will be available to holders of Bonds only if the holders comply with the procedures of the MSRB or obtain the information through securities brokers who do so.

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to 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 of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations

of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12 (the “Rule”), taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as any changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 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 so provided. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgement that such provisions of the Rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **Compliance with Prior Undertakings**

The District failed to timely file its audited financial statements and additional financial information for the fiscal year ended May 31, 2018. In addition, the District failed to file the event notice required in connection with its failure to timely file such audit and additional financial information. Such event filing has subsequently been made. With the exception of the matters discussed above, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule and the District has implemented procedures to ensure timely filing of all future submissions.

## **VERIFICATION OF ACCURACY OF MATHEMATICAL CALCULATIONS**

The accuracy of the mathematical computations with respect to the adequacy of the funds available to provide for the payment of the Refunded Bonds will be verified by Ritz & Associates PA, a firm of independent certified public accountants. These computations will be based upon information and assumptions supplied by the Underwriter. Ritz & Associates PA has restricted its procedures to recalculating the computations provided by the Underwriter and has not evaluated or examined the assumptions or information used in the computations.

## **PREPARATION OF OFFICIAL STATEMENT**

### **General**

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### **Consultants**

The information contained in this Official Statement relating to the physical characteristics of the District and engineering matters and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Appraisal District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing and collecting.

The information contained in this Official Statement in the section captioned "THE DISTRICT—The Developer" has been provided by the developer named in that section.

The financial statements contained in "APPENDIX A—Financial Statements of the District" have been included in reliance upon the accompanying report of the District's Auditor.

### **Updating the Official Statement**

If, subsequent to the date of the Official Statement, the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds to the Underwriter) until all of the Bonds have been sold to ultimate customers.

**Certification of Official Statement**

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, 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 are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of New Caney Municipal Utility District as of the date specified on the first page hereof.

/s/ William B. Smith  
President, Board of Directors  
New Caney Municipal Utility District

ATTEST:

/s/ Dorothy Rawlinson  
Secretary, Board of Directors  
New Caney Municipal Utility District



**APPENDIX A—Financial Statements of the District**

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
MONTGOMERY COUNTY, TEXAS  
ANNUAL FINANCIAL REPORT  
MAY 31, 2020**

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**MONTGOMERY COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**MAY 31, 2020**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
New Caney Municipal  
Utility District  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of New Caney Municipal Utility District (the "District"), as of and for the year ended May 31, 2020, 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 District'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  
New Caney Municipal  
Utility District

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2020, 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 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

September 17, 2020

# **NEW CANEY MUNICIPAL UTILITY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED MAY 31, 2020**

Management's discussion and analysis of New Caney Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended May 31, 2020. 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, if applicable, deferred outflows and inflows 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, operating 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.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2020**

**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"). A 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 exceeded liabilities by \$10,878,729 as of May 31, 2020. A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as the water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2020**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

|   | Summary of Changes in the Statement of Net Position |               |                                  |
|---|---|---------------|----------------------------------|
|   | 2020  | 2019          | Change<br>Positive<br>(Negative) |
| Current and Other Assets                            | \$ 17,615,264                                       | \$ 20,747,541 | \$ (3,132,277)                   |
| Capital Assets (Net of Accumulated<br>Depreciation) | 29,633,484  | 27,731,724    | 1,901,760                        |
| Total Assets  | \$ 47,248,748                                       | \$ 48,479,265 | \$ (1,230,517)                   |
| Due to Developer                                    | \$ 358,745  | \$ 1,180,450  | \$ 821,705                       |
| Bonds Payable                                       | 34,555,846  | 35,631,175    | 1,075,329                        |
| Other Liabilities                                   | 1,455,428   | 1,260,585     | (194,843)                        |
| Total Liabilities                                   | \$ 36,370,019                                       | \$ 38,072,210 | \$ 1,702,191                     |
| Net Position:                                       |   |               |                                  |
| Net Investment in Capital Assets                    | \$ 4,774,806  | \$ 4,225,085  | \$ 549,721                       |
| Restricted  | 2,935,073   | 3,018,480     | (83,407)                         |
| Unrestricted  | 3,168,850   | 3,163,490     | 5,360                            |
| Total Net Position                                  | \$ 10,878,729                                       | \$ 10,407,055 | \$ 471,674                       |

The following table provides a summary of the District's operations for the years ended May 31, 2020, and May 31, 2019.

|                                 | Summary of Changes in the Statement of Activities |               |                                  |
|---------------------------------|---|---------------|----------------------------------|
|                                 | 2020  | 2019          | Change<br>Positive<br>(Negative) |
| Revenues:                       |   |               |                                  |
| Property Taxes                  | \$ 2,206,183                                      | \$ 2,369,839  | \$ (163,656)                     |
| Charges for Services            | 4,229,421   | 3,958,753     | 270,668                          |
| Other Revenues                  | 737,841   | 286,684       | 451,157                          |
| Total Revenues                  | \$ 7,173,445                                      | \$ 6,615,276  | \$ 558,169                       |
| Expenses for Services           | 6,701,771   | 6,696,108     | (5,663)                          |
| Change in Net Position          | \$ 471,674  | \$ (80,832)   | \$ 552,506                       |
| Net Position, Beginning of Year | 10,407,055  | 10,487,887    | (80,832)                         |
| Net Position, End of Year       | \$ 10,878,729                                     | \$ 10,407,055 | \$ 471,674                       |



**NEW CANEY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of May 31, 2020, were \$16,057,246, a decrease of \$3,229,044 from the prior year.

The General Fund fund balance increased by \$7,898, primarily due to service and investment revenues exceeding operating expenditures.

The Debt Service Fund fund balance decreased by \$13,691, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$3,223,251, primarily due to current year capital outlay costs paid from proceeds of bonds issued in prior years.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors amended the budget during the current fiscal year to reduce expected penalty and interest revenues and increase expected personnel costs. Actual revenues were \$64,239 more than budgeted revenues primarily due to greater than anticipated service revenues offset by lower than anticipated other revenues. Actual expenditures were \$56,341 more than budgeted expenditures primarily due to greater than anticipated repairs and maintenance, SJRA costs, lab costs and capital outlay costs offset by lower than anticipated professional fees and personnel costs.

**LONG-TERM DEBT ACTIVITY**

As of May 31, 2020, the District had total bond debt payable of \$34,433,524. The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

|                                 |    |            |
|---------------------------------|----|------------|
| Bond Debt Payable, June 1, 2019 | \$ | 35,503,524 |
| Less: Bond Principal Paid       |    | 1,070,000  |
| Bond Debt Payable, May 31, 2020 | \$ | 34,433,524 |

The District carries an underlying rating of "A3". The District's Series 2014, Series 2016, Series 2016-A and Series 2019 Bonds carry insured ratings of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. The District's Series 2015 Bonds carry an insured rating of "AA" from Standard & Poor's and "A2" from Moody's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The above ratings are as of May 31, 2020 and reflect all changes in ratings through the fiscal year end.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2020**

**CAPITAL ASSETS**

Capital assets as of May 31, 2020, total \$29,633,484 (net of accumulated depreciation) and include land, equipment and buildings as well as the water and wastewater systems. Capital asset additions during the current year included the purchase of land, trucks and various equipment. Construction in progress includes South Street lift station and force main replacement, Hendricks lift station and gravity sewer force main extension, waterline extensions, elevated storage tank and renovations at Water Plant No. 1.

Capital Assets At Year-End, Net of Accumulated Depreciation

|   | <u>2020</u>          | <u>2019</u>          | Change<br>Positive<br>(Negative) |
|---|----------------------|----------------------|----------------------------------|
| Capital Assets Not Being Depreciated:               |                      |                      |                                  |
| Land and Land Improvements                          | \$ 2,259,721         | \$ 1,855,906         | \$ 403,815                       |
| Construction in Progress                            | 3,196,084            | 550,919              | 2,645,165                        |
| Capital Assets, Net of Accumulated<br>Depreciation: |                      |                      |                                  |
| Building and Improvements                           | 98,455               | 105,382              | (6,927)                          |
| Equipment   | 473,080              | 321,378              | 151,702                          |
| Water System  | 4,316,991            | 4,635,178            | (318,187)                        |
| Wastewater System                                   | <u>19,289,153</u>    | <u>20,262,961</u>    | <u>(973,808)</u>                 |
| Total Net Capital Assets                            | <u>\$ 29,633,484</u> | <u>\$ 27,731,724</u> | <u>\$ 1,901,760</u>              |

**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 New Caney Municipal Utility District, P. O. Box 1799, New Caney, TX 77357.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MAY 31, 2020**

|  | General Fund        | Debt<br>Service Fund |
|--|---------------------|----------------------|
| <b>ASSETS</b>                                    |                     |                      |
| Cash   | \$ 2,036,733        | \$ 2,602,340         |
| Investments                                      | 1,116,400           | 142,055              |
| Cash with Tax Assessor/Collector                 |                     | 3,897                |
| Receivables:                                     |                     |                      |
| Property Taxes                                   |                     | 369,608              |
| Penalty and Interest on Delinquent Taxes         |                     |                      |
| Service Accounts                                 | 385,323             |                      |
| Due from Other Funds                             | 153,289             |                      |
| Prepaid Costs                                    | 30,665              |                      |
| Materials and Supplies Inventory                 | 71,307              |                      |
| Land   |                     |                      |
| Construction in Progress                         |                     |                      |
| Capital Assets (Net of Accumulated Depreciation) |                     |                      |
| <b>TOTAL ASSETS</b>                              | <b>\$ 3,793,717</b> | <b>\$ 3,117,900</b>  |

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

| <u>Capital<br/>Projects Fund</u> | <u>Total</u>         | <u>Adjustments</u>   | <u>Statement of<br/>Net Position</u> |
|----------------------------------|----------------------|----------------------|--------------------------------------|
| \$ 530,311                       | \$ 5,169,384         | \$                   | \$ 5,169,384                         |
| 10,276,191                       | 11,534,646           |                      | 11,534,646                           |
|                                  | 3,897                |                      | 3,897                                |
|                                  | 369,608              |                      | 369,608                              |
|                                  | 385,323              | 18,480               | 18,480                               |
|                                  | 153,289              | (153,289)            | 385,323                              |
|                                  | 30,665               | 31,954               | 62,619                               |
|                                  | 71,307               |                      | 71,307                               |
|                                  |                      | 2,259,721            | 2,259,721                            |
|                                  |                      | 3,196,084            | 3,196,084                            |
|                                  |                      | 24,177,679           | 24,177,679                           |
| <u>\$ 10,806,502</u>             | <u>\$ 17,718,119</u> | <u>\$ 29,530,629</u> | <u>\$ 47,248,748</u>                 |

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MAY 31, 2020**

|   | General Fund            | Debt<br>Service Fund    |
|---|-------------------------|-------------------------|
| <b>LIABILITIES</b>  |                         |                         |
| Accounts Payable  | \$ 174,316              | \$                      |
| Accrued Interest Payable  |                         |                         |
| Due to Developers   |                         |                         |
| Due to Other Funds  |                         |                         |
| Security Deposits   | 482,505                 |                         |
| Accrued Interest Payable on Compound Interest Bonds                               |                         |                         |
| Long-Term Liabilities:  |                         |                         |
| Bonds Payable, Due Within One Year  |                         |                         |
| Bonds Payable, Due After One Year   |                         |                         |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 656,821</b>       | <b>\$ -0-</b>           |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>  |                         |                         |
| Property Taxes  | \$ - 0 -                | \$ 369,608              |
| <br><b>FUND BALANCES</b>  |                         |                         |
| Nonspendable:   |                         |                         |
| Prepaid Costs   | \$ 30,665               | \$                      |
| Inventory   | 71,307                  |                         |
| Restricted for Authorized Construction  |                         |                         |
| Restricted for Debt Service   |                         | 2,748,292               |
| Assigned to 2021 Budget Deficit   | 70,034                  |                         |
| Unassigned  | 2,964,890               |                         |
| <b>TOTAL FUND BALANCES</b>  | <b>\$ 3,136,896</b>     | <b>\$ 2,748,292</b>     |
| <br><b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> | <br><b>\$ 3,793,717</b> | <br><b>\$ 3,117,900</b> |
| <br><b>NET POSITION</b>   |                         |                         |
| Net Investment in Capital Assets  |                         |                         |
| Restricted for Debt Service   |                         |                         |
| Unrestricted  |                         |                         |
| <br><b>TOTAL NET POSITION</b>   |                         |                         |

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

| <u>Capital<br/>Projects Fund</u> | <u>Total</u>         | <u>Adjustments</u>     | <u>Statement of<br/>Net Position</u> |
|----------------------------------|----------------------|------------------------|--------------------------------------|
| \$ 481,155                       | \$ 655,471           | \$                     | \$ 655,471                           |
|                                  |                      | 201,307                | 201,307                              |
|                                  |                      | 358,745                | 358,745                              |
| 153,289                          | 153,289              | (153,289)              |                                      |
|                                  | 482,505              |                        | 482,505                              |
|                                  |                      | 116,145                | 116,145                              |
|                                  |                      | 1,100,000              | 1,100,000                            |
|                                  |                      | 33,455,846             | 33,455,846                           |
| <u>\$ 634,444</u>                | <u>\$ 1,291,265</u>  | <u>\$ 35,078,754</u>   | <u>\$ 36,370,019</u>                 |
| <u>\$ - 0 -</u>                  | <u>\$ 369,608</u>    | <u>\$ (369,608)</u>    | <u>\$ - 0 -</u>                      |
| \$                               | \$ 30,665            | \$ (30,665)            | \$                                   |
|                                  | 71,307               | (71,307)               |                                      |
| 10,172,058                       | 10,172,058           | (10,172,058)           |                                      |
|                                  | 2,748,292            | (2,748,292)            |                                      |
|                                  | 70,034               | (70,034)               |                                      |
|                                  | 2,964,890            | (2,964,890)            |                                      |
| <u>\$ 10,172,058</u>             | <u>\$ 16,057,246</u> | <u>\$ (16,057,246)</u> | <u>\$ - 0 -</u>                      |
| <u>\$ 10,806,502</u>             | <u>\$ 17,718,119</u> |                        |                                      |
|                                  |                      | \$ 4,774,806           | \$ 4,774,806                         |
|                                  |                      | 2,935,073              | 2,935,073                            |
|                                  |                      | 3,168,850              | 3,168,850                            |
|                                  |                      | <u>\$ 10,878,729</u>   | <u>\$ 10,878,729</u>                 |

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**MAY 31, 2020**

|  |  |               |
|--|--|---------------|
| Total Fund Balances - Governmental Funds |  | \$ 16,057,246 |
|--|--|---------------|

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

|  |  |        |
|--|--|--------|
| Prepaid bond insurance costs are amortized over the term of the outstanding bonds. |  | 31,954 |
|--|--|--------|

|  |  |            |
|--|--|------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. |  | 29,633,484 |
|--|--|------------|

|  |  |         |
|--|--|---------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District. |  | 388,088 |
|--|--|---------|

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:

|                          |                     |                     |
|--------------------------|---------------------|---------------------|
| Due to Developer         | \$ (358,745)        |                     |
| Accrued Interest Payable | (317,452)           |                     |
| Bonds Payable            | <u>(34,555,846)</u> | <u>(35,232,043)</u> |

|  |  |                      |
|--|--|----------------------|
| Total Net Position - Governmental Activities |  | <u>\$ 10,878,729</u> |
|--|--|----------------------|

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

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**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MAY 31, 2020**

|   | General Fund        | Debt<br>Service Fund |
|---|---------------------|----------------------|
| <b>REVENUES</b>   |                     |                      |
| Property Taxes  | \$                  | \$ 2,277,797         |
| Water Service   | 1,616,424           |                      |
| Wastewater Service  | 1,147,645           |                      |
| San Jacinto River Authority Fees                                      | 1,060,730           |                      |
| Penalty and Interest  | 70,832              | 65,531               |
| Tap Connection and Inspection Fees                                    | 271,840             |                      |
| Investment and Miscellaneous Revenues                                 | 38,568              | 5,332                |
| <b>TOTAL REVENUES</b>   | <b>\$ 4,206,039</b> | <b>\$ 2,348,660</b>  |
| <b>EXPENDITURES/EXPENSES</b>  |                     |                      |
| Service Operations:   |                     |                      |
| Personnel   | \$ 1,586,766        | \$                   |
| Professional Fees   | 83,803              | 49,104               |
| Utilities   | 250,582             |                      |
| Repairs and Maintenance   | 307,163             |                      |
| San Jacinto River Authority Costs                                     | 1,111,580           |                      |
| Depreciation  |                     |                      |
| Other   | 594,229             | 2,278                |
| Developer Interest  |                     |                      |
| Capital Outlay  | 264,018             |                      |
| Debt Service:   |                     |                      |
| Bond Principal  |                     | 1,070,000            |
| Bond Interest   |                     | 1,240,969            |
| <b>TOTAL EXPENDITURES/EXPENSES</b>                                    | <b>\$ 4,198,141</b> | <b>\$ 2,362,351</b>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER<br/>EXPENDITURES/EXPENSES</b> | <b>\$ 7,898</b>     | <b>\$ (13,691)</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>                                 |                     |                      |
| Contributed by Other Entities   | \$ -0-              | \$ -0-               |
| <b>NET CHANGE IN FUND BALANCES</b>                                    | <b>\$ 7,898</b>     | <b>\$ (13,691)</b>   |
| <b>CHANGE IN NET POSITION</b>   |                     |                      |
| <b>FUND BALANCES/NET POSITION - JUNE 1, 2019</b>                      | 3,128,998           | 2,761,983            |
| <b>FUND BALANCES/NET POSITION - MAY 31, 2020</b>                      | <b>\$ 3,136,896</b> | <b>\$ 2,748,292</b>  |

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

| <u>Capital<br/>Projects Fund</u> | <u>Total</u>          | <u>Adjustments</u>    | <u>Statement of<br/>Activities</u> |
|----------------------------------|-----------------------|-----------------------|------------------------------------|
| \$                               | \$ 2,277,797          | \$ (71,614)           | \$ 2,206,183                       |
|                                  | 1,616,424             |                       | 1,616,424                          |
|                                  | 1,147,645             |                       | 1,147,645                          |
|                                  | 1,060,730             |                       | 1,060,730                          |
|                                  | 136,363               | (3,581)               | 132,782                            |
|                                  | 271,840               |                       | 271,840                            |
| 194,539                          | 238,439               | 499,402               | 737,841                            |
| <u>\$ 194,539</u>                | <u>\$ 6,749,238</u>   | <u>\$ 424,207</u>     | <u>\$ 7,173,445</u>                |
| <br>                             |                       |                       |                                    |
| \$                               | \$ 1,586,766          | \$                    | \$ 1,586,766                       |
| 9,404                            | 142,311               |                       | 142,311                            |
|                                  | 250,582               |                       | 250,582                            |
|                                  | 307,163               |                       | 307,163                            |
|                                  | 1,111,580             |                       | 1,111,580                          |
|                                  |                       | 1,380,290             | 1,380,290                          |
| 9,000                            | 605,507               |                       | 605,507                            |
|                                  |                       | 59,054                | 59,054                             |
| 3,898,788                        | 4,162,806             | (4,162,806)           |                                    |
|                                  | 1,070,000             | (1,070,000)           |                                    |
|                                  | 1,240,969             | 17,549                | 1,258,518                          |
| <u>\$ 3,917,192</u>              | <u>\$ 10,477,684</u>  | <u>\$ (3,775,913)</u> | <u>\$ 6,701,771</u>                |
| <br>                             |                       |                       |                                    |
| <u>\$ (3,722,653)</u>            | <u>\$ (3,728,446)</u> | <u>\$ 3,728,446</u>   | <u>\$ 471,674</u>                  |
| <br>                             |                       |                       |                                    |
| <u>\$ 499,402</u>                | <u>\$ 499,402</u>     | <u>\$ (499,402)</u>   | <u>\$ -0-</u>                      |
| <br>                             |                       |                       |                                    |
| \$ (3,223,251)                   | \$ (3,229,044)        | \$ 3,229,044          | \$                                 |
|                                  |                       | 471,674               | 471,674                            |
| 13,395,309                       | 19,286,290            | (8,879,235)           | 10,407,055                         |
| <u>\$ 10,172,058</u>             | <u>\$ 16,057,246</u>  | <u>\$ (5,178,517)</u> | <u>\$ 10,878,729</u>               |

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2020**

Net Change in Fund Balances - Governmental Funds \$ (3,229,044)

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

Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenue is recorded in the accounting period for which the taxes are levied. (71,614)

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the government-wide financial statements, revenue is recorded when penalties and interest are assessed. (3,581)

Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (1,380,290)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases and the Statement of Activities is not affected. 4,103,752

Governmental funds report bond principal payments as expenditures. However, in the government-wide financial statements, bond principal payments are reported as decreases in long-term liabilities. 1,070,000

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end. (17,549)

Change in Net Position - Governmental Activities \$ 471,674

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 1. CREATION OF DISTRICT**

New Caney Municipal Utility District (the “District”) was originally created effective June 1, 1978, by an order of the Texas Water Commission, now known as the Texas Commission of Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on June 5, 1978 and sold its first series of bonds on April 20, 1984.

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

- Net Investment in 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.

Fund Financial Statements

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

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, operating 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 revenues reported in the 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 taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

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. At fiscal year end, the Capital Projects Fund owed the General Fund \$153,289 for capital outlay and engineering costs paid by the General Fund.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**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.

Infrastructure assets are capitalized if they have an original cost greater than \$5,000 and a useful life over two years, and other type assets are capitalized if they have a total cost of \$500 or more. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Buildings are amortized over a period of 40 years. Water and wastewater facilities are amortized over periods ranging from 10 to 45 years. All other equipment is amortized over periods ranging from 3 to 20 years.

Inventory

Inventory is recorded at current replacement cost and has a May 31, 2020, balance of \$71,307. Current replacement cost is obtained from a third-party source for each specific item on hand at the end of the fiscal year.

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 amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District employees make payments into an IRS code Section 457 plan for their benefit (see Note 8). 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.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**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. The District has assigned \$70,034 of its General Fund fund balance to offset a 2021 budgeted deficit.

*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.



**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**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**

The following is a summary of transactions regarding bonds payable for the year ended May 31, 2020:

|                       | June 1,<br>2019      | Additions     | Retirements                | May 31,<br>2020      |
|-----------------------|----------------------|---------------|----------------------------|----------------------|
| Bonds Payable         | \$ 35,503,524        | \$            | \$ 1,070,000               | \$ 34,433,524        |
| Unamortized Discounts | (133,225)            |               | (12,146)                   | (121,079)            |
| Unamortized Premiums  | 260,876              |               | 17,475                     | 243,401              |
| Bonds Payable, Net    | <u>\$ 35,631,175</u> | <u>\$ -0-</u> | <u>\$ 1,075,329</u>        | <u>\$ 34,555,846</u> |
|                       |                      |               | Amount Due Within One Year | \$ 1,100,000         |
|                       |                      |               | Amount Due After One Year  | 33,455,846           |
|                       |                      |               | Bonds Payable, Net         | <u>\$ 34,555,846</u> |

As of May 31, 2020, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal            | Interest             | Total                |
|-------------|----------------------|----------------------|----------------------|
| 2021        | \$ 1,100,000         | \$ 1,207,845         | \$ 2,307,845         |
| 2022        | 1,130,000            | 1,174,893            | 2,304,893            |
| 2023        | 1,160,000            | 1,140,294            | 2,300,294            |
| 2024        | 1,195,000            | 1,104,792            | 2,299,792            |
| 2025        | 1,235,000            | 1,062,669            | 2,297,669            |
| 2026-2030   | 6,870,000            | 4,631,388            | 11,501,388           |
| 2031-2035   | 7,623,524            | 3,911,354            | 11,534,878           |
| 2036-2040   | 9,705,000            | 1,881,400            | 11,586,400           |
| 2041-2042   | 4,415,000            | 249,938              | 4,664,938            |
|             | <u>\$ 34,433,524</u> | <u>\$ 16,364,573</u> | <u>\$ 50,798,097</u> |

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 3. LONG TERM-DEBT (Continued)**

|   | Series 2014<br>Refunding | Series 2015 Refunding               |                                       |
|---|--------------------------|-------------------------------------|---------------------------------------|
|   |                          | Current<br>Interest Bonds           | Premium<br>Compound<br>Interest Bonds |
| Amount Outstanding - May 31, 2020             | \$ 8,910,000             | \$ 5,420,000                        | \$ 533,524                            |
| Interest Rates                                | 2.75% - 4.375%           | 3.00% - 4.00%                       | 4.09%                                 |
| Maturity Dates – Serially<br>Beginning/Ending | April 1,<br>2021/2033    | April 1,<br>2021/2033,<br>2035,2036 | April 1,<br>2034                      |
| Interest Payment Dates                        | October 1 /<br>April 1   | October 1/<br>April 1               | At Maturity                           |
| Callable Dates                                | October 1, 2021 *        | April 1, 2023 *                     | Non-Callable *                        |
|   | Series 2016              | Series 2016A                        | Series 2019                           |
| Amount Outstanding - May 31, 2020             | \$ 1,880,000             | \$ 5,740,000                        | \$ 11,950,000                         |
| Interest Rates                                | 2.00% - 3.00%            | 2.00% - 3.00%                       | 3.00% - 5.00%                         |
| Maturity Dates – Serially<br>Beginning/Ending | April 1,<br>2021/2036    | April 1,<br>2021/2038               | April 1,<br>2021/2042                 |
| Interest Payment Dates                        | October 1 /<br>April 1   | October 1 /<br>April 1              | October 1 /<br>April 1                |
| Callable Dates                                | April 1, 2023 *          | April 1, 2023 *                     | April 1, 2026 *                       |

\* In whole or from time to time in part on the callable date or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Series 2015 Refunding Bonds maturing on April 1, 2030 and 2033 are term bonds and subject to mandatory redemption beginning on April 1, 2027 and 2031. The Series 2016-A Bonds maturing on April 1, 2025, 2027, 2029, 2031, 2033, 2036 and 2038 are term bonds and are subject to mandatory redemption beginning on April 1, 2024, 2026, 2028, 2030, 2032, 2034 and 2037. The Series 2019 Bonds maturing on April 1, 2029 and 2039 are term bonds and subject to mandatory redemption beginning on April 1, 2028 and 2037.

The Series 2015 Compound Interest Bonds par value is \$533,524 and the maturity value is \$1,145,000. Interest will be paid at maturity. As of May 31, 2020, accrued interest is \$116,145 and the accreted value of these bonds is approximately \$649,669.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 3. LONG TERM-DEBT (Continued)**

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. As of May 31, 2020, the District has \$19,090,000 in authorized but unissued bonds for utilities and \$69,791,476 in authorized but unissued bonds for refunding purposes. On May 9, 2015, voters authorized designation of certain tracts as a defined area, issuance of \$10,780,000 bonds and levy of taxes and pledge of net revenues adequate to provide for payment of the bonds for water, sewer and drainage improvements to serve the defined area. This bond authorization is in addition to the \$19,090,000 in authorized but unissued bonds noted above.

During the year ended May 31, 2020, the District levied an ad valorem debt service tax rate of \$0.53 per \$100 of assessed valuation, which resulted in a tax levy of \$2,237,612 on the adjusted taxable valuation of \$421,618,907 for the 2019 tax year. The bond resolutions 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.

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 RESOLUTIONS AND LEGAL REQUIREMENTS**

The bond resolutions 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 certain information repositories. 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.

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 each use.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**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 \$5,169,384 and the bank balance was \$5,405,314. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2020, as listed below:

|                       | Cash         |
|-----------------------|--------------|
| GENERAL FUND          | \$ 2,036,733 |
| DEBT SERVICE FUND     | 2,602,340    |
| CAPITAL PROJECTS FUND | 530,311      |
| TOTAL DEPOSITS        | \$ 5,169,384 |

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.”

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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 investments in TexPool at amortized cost for financial reporting purposes. There are no limitations on withdrawals from TexPool.

The District invests in Fidelity Investments Money Market Treasure Portfolio Class III (“FCSXX”) Fidelity invests at least 99.5% of the fund’s total assets in cash, U.S Treasury Securities and/or repurchase agreements for those securities. Fidelity stresses maintaining a stable \$1.00 share price, liquidity, and income. The fund had a weighted average maturity of 31 days and a 30-day yield of 1.99% as of May 31, 2020. Investments in FCSXX are not insured by FDIC. This is a Level 1 investment with observable, quoted prices for identical assets in active markets.

As of May 31, 2020, the District had the following investments and maturities:

| <u>Fund and<br/>Investment Type</u> | <u>Fair Value</u>   | <u>Maturities of<br/>Less Than<br/>1 Year</u> |
|-------------------------------------|---------------------|---|
| <u>GENERAL FUND</u>                 |                     |   |
| TexPool                             | \$ 1,116,400        | \$ 1,116,400                                  |
| <u>DEBT SERVICE FUND</u>            |                     |   |
| TexPool                             | 142,055             | 142,055                                       |
| <u>CAPITAL PROJECTS FUND</u>        |                     |   |
| TexPool                             | 6,165,592           | 6,165,592                                     |
| MMMF FCSXX                          | <u>4,110,599</u>    | <u>4,110,599</u>                              |
| TOTAL INVESTMENTS                   | <u>\$11,534,646</u> | <u>\$11,534,646</u>                           |

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2020, the District's investments in TexPool and FCSXX were rated AAAM by Standard and Poor's. 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 FCSXX to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there have been significant changes in values.

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 purchase of capital assets.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended May 31, 2020 is as follows:

|  | June 1,<br>2019             | Increases                  | Decreases                | May 31,<br>2020             |
|--|-----------------------------|----------------------------|--------------------------|-----------------------------|
| <b>Capital Assets Not Being Depreciated</b>                              |                             |                            |                          |                             |
| Land and Land Improvements   | \$ 1,855,906                | \$ 403,815                 | \$                       | \$ 2,259,721                |
| Construction in Progress   | 550,919                     | 2,878,235                  | 233,070                  | 3,196,084                   |
| <b>Total Capital Assets Not Being Depreciated</b>                        | <u>\$ 2,406,825</u>         | <u>\$ 3,282,050</u>        | <u>\$ 233,070</u>        | <u>\$ 5,455,805</u>         |
| <b>Capital Assets Subject to Depreciation</b>                            |                             |                            |                          |                             |
| Building and Improvements  | \$ 239,250                  | \$                         | \$                       | \$ 239,250                  |
| Equipment  | 1,572,653                   | 233,070                    | \$                       | 1,805,723                   |
| Water System   | 12,981,786                  |                            |                          | 12,981,786                  |
| Wastewater System  | 28,170,335                  |                            |                          | 28,170,335                  |
| <b>Total Capital Assets Subject to Depreciation</b>                      | <u>\$ 42,964,024</u>        | <u>\$ 233,070</u>          | <u>\$ - 0 -</u>          | <u>\$ 43,197,094</u>        |
| <b>Accumulated Depreciation</b>  |                             |                            |                          |                             |
| Building and Improvements  | \$ 133,868                  | \$ 6,927                   | \$                       | \$ 140,795                  |
| Equipment  | 1,251,275                   | 81,368                     | \$                       | 1,332,643                   |
| Water System   | 8,346,608                   | 318,187                    | \$                       | 8,664,795                   |
| Wastewater System  | 7,907,374                   | 973,808                    | \$                       | 8,881,182                   |
| <b>Total Accumulated Depreciation</b>                                    | <u>\$ 17,639,125</u>        | <u>\$ 1,380,290</u>        | <u>\$ - 0 -</u>          | <u>\$ 19,019,415</u>        |
| <b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b> | <u>\$ 25,324,899</u>        | <u>\$ (1,147,220)</u>      | <u>\$ - 0 -</u>          | <u>\$ 24,177,679</u>        |
| <b>Total Capital Assets, Net of Accumulated Depreciation</b>             | <u><u>\$ 27,731,724</u></u> | <u><u>\$ 2,134,830</u></u> | <u><u>\$ 233,070</u></u> | <u><u>\$ 29,633,484</u></u> |

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 7. MAINTENANCE TAX**

The Board of Directors of the District have the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. Such tax would be in addition to taxes which the District is authorized to levy for paying principal and interest on outstanding bonds, and any tax bonds which may be issued in the future.

On May 9, 2015, voters authorized implementation of an operations and maintenance tax not to exceed \$1.50 per \$100 valuation of taxable property within a defined area. During the current fiscal year, no such tax was levied.

**NOTE 8. RETIREMENT PLAN**

In February 1991, the District approved a deferred compensation plan, which was created in accordance with Internal Revenue Code Section 457. The plan, available to all qualified employees, permits the employees to defer a portion of their salaries. The deferred compensation is not paid to employees until retirement, cessation of employment, death, or unforeseeable emergencies. Contributions to the plan are comprised of voluntary employee withholding and District contributions. Each individual employee's pension account is maintained by an independent third-party administrator to manage the plan. Vesting is immediate upon funding.

**NOTE 9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Water Conservation Association Risk Management Fund (TWCA) to provide property, general liability, errors and omissions, automobile, and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TWCA's management. As claims arise they are submitted and paid by TWCA. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 10. LONE STAR GROUNDWATER CONSERVATION DISTRICT**

The District is a part of the Lone Star Groundwater Conservation District ("Conservation District"). The Conservation District was created for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs of their subdivisions. The Conservation District charges a fee to enable it to fulfill its purpose and regulatory functions.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 11. SAN JACINTO RIVER AUTHORITY**

On June 17, 2010, the District entered into a contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). The District and the Authority operate within the boundaries of the Lone Star Ground Water Conservation District. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with underground water supplies, so that regulated users may continue to pump groundwater. The Authority charges a fee, currently \$2.73 per 1,000 gallons, based on the amount of groundwater and surface water used. The terms of this contract expire on December 31, 2045. During the current fiscal year, the District recorded expenditures of \$1,111,580 in relation to this contract.

**NOTE 12. UNREIMBURSED COSTS**

The District has executed reimbursement agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, wastewater and drainage facilities until such time as the District can sell bonds. At the beginning of the fiscal year, the District had recorded \$1,180,450 as Due to Developer for completed projects. During the current year, the Developer was reimbursed \$821,387 (including \$59,054 interest) for the 68% District Area portion of the construction and engineering costs of the Kidd Road Lift Station. The District also reimbursed the Developer \$59,372 for the difference between the amount advanced and the actual cost of the project. As of May 31, 2020, the District has recorded \$358,745 as Due to Developer for the 32% Defined Area portion of the construction and engineering costs for the Kidd Road Lift Station.

**NOTE 13. 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 could 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.



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**NEW CANEY MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MAY 31, 2020**

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MAY 31, 2020**

|                                       | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>       | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---------------------------------------|----------------------------|-------------------------------------|---------------------|---|
| <b>REVENUES</b>                       |                            |                                     |                     |   |
| Water Service                         | 2,547,166                  | \$ 2,547,166                        | \$ 2,677,154        | \$ 129,988                                  |
| Wastewater Service                    | 1,118,166                  | 1,118,166                           | 1,147,645           | 29,479                                      |
| Penalty and Interest                  | 88,868                     | 80,268                              | 70,832              | (9,436)                                     |
| Tap Connection & Inspection Fees      | 336,000                    | 336,000                             | 271,840             | (64,160)                                    |
| Investment and Miscellaneous Revenues | <u>60,200</u>              | <u>60,200</u>                       | <u>38,568</u>       | <u>(21,632)</u>                             |
| <b>TOTAL REVENUES</b>                 | <u>\$ 4,150,400</u>        | <u>\$ 4,141,800</u>                 | <u>\$ 4,206,039</u> | <u>\$ 64,239</u>                            |
| <b>EXPENDITURES</b>                   |                            |                                     |                     |   |
| Service Operations:                   |                            |                                     |                     |   |
| Personnel                             | \$ 1,619,235               | \$ 1,627,835                        | \$ 1,586,766        | \$ 41,069                                   |
| Professional Fees                     | 98,000                     | 98,000                              | 83,803              | 14,197                                      |
| Utilities                             | 268,500                    | 268,500                             | 250,582             | 17,918                                      |
| Repairs and Maintenance               | 295,400                    | 295,400                             | 307,163             | (11,763)                                    |
| San Jacinto River Authority Costs     | 1,100,000                  | 1,100,000                           | 1,111,580           | (11,580)                                    |
| Other                                 | 513,041                    | 513,041                             | 594,229             | (81,188)                                    |
| Capital Outlay                        | <u>239,024</u>             | <u>239,024</u>                      | <u>264,018</u>      | <u>(24,994)</u>                             |
| <b>TOTAL EXPENDITURES</b>             | <u>\$ 4,133,200</u>        | <u>\$ 4,141,800</u>                 | <u>\$ 4,198,141</u> | <u>\$ (56,341)</u>                          |
| <b>NET CHANGE IN FUND BALANCE</b>     | \$ 17,200                  | \$ -0-                              | \$ 7,898            | \$ 7,898                                    |
| <b>FUND BALANCE - JUNE 1, 2019</b>    | <u>3,128,998</u>           | <u>3,128,998</u>                    | <u>3,128,998</u>    | <u>                    </u>                 |
| <b>FUND BALANCE - MAY 31, 2020</b>    | <u>\$ 3,146,198</u>        | <u>\$ 3,128,998</u>                 | <u>\$ 3,136,896</u> | <u>\$ 7,898</u>                             |

See accompanying independent auditor's report.

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**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**MAY 31, 2020**

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MAY 31, 2020**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order effective June 1, 2014.

|             | Minimum Charge | Minimum Usage | Flat Rate | Rate per 1,000 Gallons over Minimum Use | Usage Levels     |
|-------------|----------------|---------------|-----------|---|------------------|
| WATER:      | \$ 12.00       | 3,000         | N         | \$ 2.50                                 | 3,001 to 4,000   |
|             |                |               |           | \$ 2.75                                 | 4,001 to 5,000   |
|             |                |               |           | \$ 3.00                                 | 5,001 to 6,000   |
|             |                |               |           | \$ 3.25                                 | 6,001 to 10,000  |
|             |                |               |           | \$ 3.75                                 | 10,001 to 12,000 |
|             |                |               |           | \$ 4.00                                 | 12,001 to 15,000 |
|             |                |               |           | \$ 4.25                                 | 15,001 to 20,000 |
|             |                |               |           | \$ 4.75                                 | 20,001 to 50,000 |
|             |                |               |           | \$ 5.75                                 | 50,001 and up    |
| WASTEWATER: | \$ 14.00       | 3,000         | N         | \$ 2.50                                 | 3,001 to 20,000  |
|             |                |               |           | \$ 3.00                                 | 20,001 and up    |

**SURCHARGE:**

|                   |                                      |
|-------------------|--------------------------------------|
| Water             |                                      |
| Conservation      |                                      |
| District Fees     | current rate + 15% per 1,000 gallons |
| Commission        |                                      |
| Regulatory        |                                      |
| Assessments       | 0.5% of water and wastewater bill    |
| San Jacinto River |                                      |
| Authority Fees    | current rate + 15% per 1,000 gallons |

District employs winter averaging for wastewater usage?

\_\_\_\_\_   X    
Yes            No

Total monthly charges per 10,000 gallons usage: Water: \$33.25 Wastewater: \$31.50 Surcharge: \$32.93

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MAY 31, 2020**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS (Unaudited):**

| <u>Meter Size</u>               | <u>Total<br/>Connections</u> | <u>Active<br/>Connections</u> | <u>ESFC<br/>Factor</u> | <u>Active<br/>ESFCs</u> |
|---------------------------------|------------------------------|-------------------------------|------------------------|-------------------------|
| Unmetered                       |                              |                               | x 1.0                  |                         |
| ≤¾"                             | <u>4,171</u>                 | <u>3,844</u>                  | x 1.0                  | <u>3,844</u>            |
| 1"                              | <u>81</u>                    | <u>79</u>                     | x 2.5                  | <u>198</u>              |
| 1½"                             | <u>10</u>                    | <u>10</u>                     | x 5.0                  | <u>50</u>               |
| 2"                              | <u>147</u>                   | <u>147</u>                    | x 8.0                  | <u>1,176</u>            |
| 3"                              | <u>4</u>                     | <u>4</u>                      | x 15.0                 | <u>60</u>               |
| 4"                              | <u>4</u>                     | <u>4</u>                      | x 25.0                 | <u>100</u>              |
| 6"                              | <u>2</u>                     | <u>2</u>                      | x 50.0                 | <u>100</u>              |
| 8"                              | <u>2</u>                     | <u>2</u>                      | x 80.0                 | <u>160</u>              |
| 10"                             | <u>1</u>                     | <u>1</u>                      | x 115.0                | <u>115</u>              |
| Total Water<br>Connections      | <u><u>4,422</u></u>          | <u><u>4,093</u></u>           |                        | <u><u>5,803</u></u>     |
| Total Wastewater<br>Connections | <u><u>4,085</u></u>          | <u><u>3,873</u></u>           | x 1.0                  | <u><u>3,873</u></u>     |

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

|                              |             |   |
|------------------------------|-------------|---|
| Gallons pumped into system:  | 413,550,000 | Water Accountability Ratio: 87.2%<br>(Gallons billed and lost/Gallons pumped) |
| Gallons billed to customers: | 347,379,000 |   |
| Gallons water loss:          | 13,290,000  |   |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
SERVICES AND RATES  
FOR THE YEAR ENDED MAY 31, 2020**

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

Does the District have Debt Service standby fees? Yes  No

If yes, Date of the most recent Commission Order: \_\_\_\_\_

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

If yes, Date of the most recent Commission Order: \_\_\_\_\_

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

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

Entirely  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

See accompanying independent auditor's report.



**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MAY 31, 2020**

|   |                            |
|---|----------------------------|
| PERSONNEL EXPENDITURES (Including Benefits) | \$ 1,586,766               |
| PROFESSIONAL FEES:                          |                            |
| Auditing                                    | \$ 19,250                  |
| Engineering                                 | 20,457                     |
| Legal                                       | 28,032                     |
| Management and Consulting                   | <u>16,064</u>              |
| TOTAL PROFESSIONAL FEES                     | <u>\$ 83,803</u>           |
| UTILITIES:                                  |                            |
| Electricity                                 | \$ 216,171                 |
| Telephone                                   | <u>34,411</u>              |
| TOTAL UTILITIES                             | <u>\$ 250,582</u>          |
| REPAIRS AND MAINTENANCE                     | <u>\$ 307,163</u>          |
| ADMINISTRATIVE EXPENDITURES:                |                            |
| Director Fees                               | \$ 13,350                  |
| Insurance                                   | 44,163                     |
| Office Supplies and Postage                 | 60,757                     |
| Travel, Meals and Entertainment             | 7,464                      |
| Bank Charges                                | 17,843                     |
| Other                                       | <u>39,044</u>              |
| TOTAL ADMINISTRATIVE EXPENDITURES           | <u>\$ 182,621</u>          |
| CAPITAL OUTLAY                              | <u>\$ 264,018</u>          |
| TAP CONNECTIONS                             | <u>\$ 25,000</u>           |
| OTHER EXPENDITURES:                         |                            |
| Bad Debt Expense                            | \$ 12,754                  |
| Chemicals                                   | 69,963                     |
| Fuels and Lubricants                        | 26,970                     |
| Equipment Rental                            | 23,857                     |
| Permit Fees                                 | 25,620                     |
| Laboratory Fees                             | 55,164                     |
| Sludge Hauling                              | 56,113                     |
| San Jacinto River Authority Costs           | 1,111,580                  |
| Lone Star Groundwater                       | 37,601                     |
| TCEQ Regulatory Assessment                  | 13,222                     |
| Supplies/Maintenance/Equipment              | 37,953                     |
| Maintenance Agreements                      | <u>27,391</u>              |
| TOTAL OTHER EXPENDITURES                    | <u>\$ 1,498,188</u>        |
| TOTAL EXPENDITURES                          | <u><u>\$ 4,198,141</u></u> |

Number of persons employed by the District                      23 Full-Time                      -0- Part-Time

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
INVESTMENTS  
MAY 31, 2020**

| <u>Funds</u>                 | <u>Identification or<br/>Certificate Number</u> | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Balance at<br/>End of Year</u> | <u>Accrued<br/>Interest<br/>Receivable at<br/>End of Year</u> |
|------------------------------|---|--------------------------|--------------------------|-----------------------------------|---|
| <u>GENERAL FUND</u>          |   |                          |                          |                                   |   |
| TexPool                      | XXXX0002  | Varies                   | Daily                    | \$ 1,116,400                      | \$ - 0 -  |
| <u>DEBT SERVICE FUND</u>     |   |                          |                          |                                   |   |
| TexPool                      | XXXX0001  | Varies                   | Daily                    | \$ 142,055                        | \$ - 0 -  |
| <u>CAPITAL PROJECTS FUND</u> |   |                          |                          |                                   |   |
| TexPool                      | XXXX0003  | Varies                   | Daily                    | \$ 1,424,068                      | \$  |
| TexPool                      | XXXX0016  | Varies                   | Daily                    | 4,741,524                         |   |
| MMMF FCSXX                   | XXXX9284  | Varies                   | Daily                    | 4,110,599                         |   |
| TOTAL CAPITAL PROJECTS FUND  |   |                          |                          | <u>\$ 10,276,191</u>              | <u>\$ - 0 -</u>   |
| TOTAL - ALL FUNDS            |   |                          |                          | <u>\$ 11,534,646</u>              | <u>\$ - 0 -</u>   |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MAY 31, 2020**

|                             | Debt Service Taxes |              |
|-----------------------------|--------------------|--------------|
| TAXES RECEIVABLE -          |                    |              |
| JUNE 1, 2019                | \$ 441,222         |              |
| Adjustments to Beginning    |                    |              |
| Balance                     | (31,429)           | \$ 409,793   |
| Original 2019 Tax Levy      | \$ 2,207,601       |              |
| Adjustment to 2019 Tax Levy | 30,011             | 2,237,612    |
| TOTAL TO BE                 |                    |              |
| ACCOUNTED FOR               |                    | \$ 2,647,405 |
| <br>TAX COLLECTIONS:        |                    |              |
| Prior Years                 | \$ 176,827         |              |
| Current Year                | 2,100,970          | 2,277,797    |
| <br>TAXES RECEIVABLE -      |                    |              |
| MAY 31, 2020                |                    | \$ 369,608   |
| <br>TAXES RECEIVABLE BY     |                    |              |
| YEAR:                       |                    |              |
| 2019                        |                    | \$ 136,642   |
| 2018                        |                    | 54,151       |
| 2017                        |                    | 29,482       |
| 2016                        |                    | 23,075       |
| 2015                        |                    | 17,510       |
| 2014                        |                    | 12,318       |
| 2013                        |                    | 13,429       |
| 2012                        |                    | 13,919       |
| 2011                        |                    | 14,056       |
| 2010                        |                    | 14,676       |
| 2009                        |                    | 6,205        |
| 2008                        |                    | 5,568        |
| 2007                        |                    | 5,503        |
| 2006                        |                    | 4,121        |
| 2005 and prior              |                    | 18,953       |
| TOTAL                       |                    | \$ 369,608   |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MAY 31, 2020**

|  | <u>2019</u>           | <u>2018</u>           | <u>2017</u>           | <u>2016</u>           |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>PROPERTY VALUATIONS:</b>                          |                       |                       |                       |                       |
| Land   | \$ 184,365,151        | \$ 183,105,325        | \$ 152,837,325        | \$ 118,075,695        |
| Improvements   | 366,436,831           | 334,583,733           | 295,276,490           | 254,652,370           |
| Personal Property                                    | 76,450,404            | 71,405,414            | 49,748,172            | 37,300,116            |
| Exemptions   | <u>(205,633,479)</u>  | <u>(173,814,781)</u>  | <u>(176,342,821)</u>  | <u>(165,830,831)</u>  |
| <b>TOTAL PROPERTY VALUATIONS</b>                     | <u>\$ 421,618,907</u> | <u>\$ 415,279,691</u> | <u>\$ 321,519,166</u> | <u>\$ 244,197,350</u> |
| <b>TOTAL TAX RATES PER \$100 VALUATION</b>           |                       |                       |                       |                       |
| Debt Service   | <u>\$ 0.5300</u>      | <u>\$ 0.5700</u>      | <u>\$ 0.5994</u>      | <u>\$ 0.6797</u>      |
| <b>ADJUSTED TAX LEVY*</b>                            | <u>\$ 2,237,612</u>   | <u>\$ 2,372,276</u>   | <u>\$ 1,929,520</u>   | <u>\$ 1,661,464</u>   |
| <b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b> |                       |                       |                       |                       |
|  | <u>93.89 %</u>        | <u>97.72 %</u>        | <u>98.47 %</u>        | <u>98.61 %</u>        |

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

On May 9, 2015, voters authorized implementation of an operations and maintenance tax not to exceed \$1.50 per \$100 valuation of taxable property within a defined area. During the current fiscal year, no such tax was levied.

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

SERIES - 2014 REFUNDING

| Due During Fiscal<br>Years Ending<br>May 31 | Principal<br>Due<br>April 1 | Interest Due<br>October 1/<br>April 1 | Total                |
|---|-----------------------------|---------------------------------------|----------------------|
| 2021  | \$ 260,000                  | \$ 353,850                            | \$ 613,850           |
| 2022  | 275,000                     | 346,700                               | 621,700              |
| 2023  | 295,000                     | 338,450                               | 633,450              |
| 2024  | 310,000                     | 329,600                               | 639,600              |
| 2025  | 320,000                     | 319,525                               | 639,525              |
| 2026  | 340,000                     | 308,325                               | 648,325              |
| 2027  | 860,000                     | 295,575                               | 1,155,575            |
| 2028  | 910,000                     | 261,175                               | 1,171,175            |
| 2029  | 960,000                     | 224,775                               | 1,184,775            |
| 2030  | 1,005,000                   | 186,375                               | 1,191,375            |
| 2031  | 1,065,000                   | 144,919                               | 1,209,919            |
| 2032  | 1,125,000                   | 99,656                                | 1,224,656            |
| 2033  | 1,185,000                   | 51,844                                | 1,236,844            |
| 2034  |                             |                                       |                      |
| 2035  |                             |                                       |                      |
| 2036  |                             |                                       |                      |
| 2037  |                             |                                       |                      |
| 2038  |                             |                                       |                      |
| 2039  |                             |                                       |                      |
| 2040  |                             |                                       |                      |
| 2041  |                             |                                       |                      |
| 2042  |                             |                                       |                      |
|   | <u>\$ 8,910,000</u>         | <u>\$ 3,260,769</u>                   | <u>\$ 12,170,769</u> |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

SERIES - 2015 REFUNDING

| Due During Fiscal<br>Years Ending<br>May 31 | Principal<br>Due<br>April 1 | Interest Due<br>October 1/<br>April 1 | Total               |
|---|-----------------------------|---------------------------------------|---------------------|
| 2021  | \$ 435,000                  | \$ 201,987                            | \$ 636,987          |
| 2022  | 445,000                     | 188,937                               | 633,937             |
| 2023  | 455,000                     | 175,587                               | 630,587             |
| 2024  | 470,000                     | 161,937                               | 631,937             |
| 2025  | 490,000                     | 143,137                               | 633,137             |
| 2026  | 505,000                     | 123,537                               | 628,537             |
| 2027  | 30,000                      | 103,337                               | 133,337             |
| 2028  | 30,000                      | 102,364                               | 132,364             |
| 2029  | 30,000                      | 101,388                               | 131,388             |
| 2030  | 35,000                      | 100,414                               | 135,414             |
| 2031  | 35,000                      | 99,276                                | 134,276             |
| 2032  | 35,000                      | 98,050                                | 133,050             |
| 2033  | 35,000                      | 96,826                                | 131,826             |
| 2034  | 533,524                     | 707,076                               | 1,240,600           |
| 2035  | 1,165,000                   | 95,600                                | 1,260,600           |
| 2036  | 1,225,000                   | 49,000                                | 1,274,000           |
| 2037  |                             |                                       |                     |
| 2038  |                             |                                       |                     |
| 2039  |                             |                                       |                     |
| 2040  |                             |                                       |                     |
| 2041  |                             |                                       |                     |
| 2042  |                             |                                       |                     |
|   | <u>\$ 5,953,524</u>         | <u>\$ 2,548,453</u>                   | <u>\$ 8,501,977</u> |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

| S E R I E S - 2 0 1 6                       |                             |                                       |       |           |
|---|-----------------------------|---------------------------------------|-------|-----------|
| Due During Fiscal<br>Years Ending<br>May 31 | Principal<br>Due<br>April 1 | Interest Due<br>October 1/<br>April 1 | Total |           |
| 2021  | \$ 125,000                  | \$ 45,413                             | \$    | 170,413   |
| 2022  | 125,000                     | 42,913                                |       | 167,913   |
| 2023  | 120,000                     | 40,413                                |       | 160,413   |
| 2024  | 115,000                     | 38,012                                |       | 153,012   |
| 2025  | 120,000                     | 35,713                                |       | 155,713   |
| 2026  | 120,000                     | 33,312                                |       | 153,312   |
| 2027  | 115,000                     | 30,913                                |       | 145,913   |
| 2028  | 105,000                     | 28,612                                |       | 133,612   |
| 2029  | 100,000                     | 26,250                                |       | 126,250   |
| 2030  | 95,000                      | 24,000                                |       | 119,000   |
| 2031  | 80,000                      | 21,625                                |       | 101,625   |
| 2032  | 70,000                      | 19,625                                |       | 89,625    |
| 2033  | 65,000                      | 17,700                                |       | 82,700    |
| 2034  | 170,000                     | 15,750                                |       | 185,750   |
| 2035  | 180,000                     | 10,650                                |       | 190,650   |
| 2036  | 175,000                     | 5,250                                 |       | 180,250   |
| 2037  |                             |                                       |       |           |
| 2038  |                             |                                       |       |           |
| 2039  |                             |                                       |       |           |
| 2040  |                             |                                       |       |           |
| 2041  |                             |                                       |       |           |
| 2042  |                             |                                       |       |           |
|   | \$ 1,880,000                | \$ 436,151                            | \$    | 2,316,151 |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

S E R I E S - 2 0 1 6 - A

| Due During Fiscal<br>Years Ending<br>May 31 | Principal<br>Due<br>April 1 | Interest Due<br>October 1/<br>April 1 | Total               |
|---|-----------------------------|---------------------------------------|---------------------|
| 2021  | \$ 125,000                  | \$ 159,832                            | \$ 284,832          |
| 2022  | 125,000                     | 157,331                               | 282,331             |
| 2023  | 130,000                     | 154,831                               | 284,831             |
| 2024  | 135,000                     | 152,231                               | 287,231             |
| 2025  | 135,000                     | 149,531                               | 284,531             |
| 2026  | 140,000                     | 146,831                               | 286,831             |
| 2027  | 140,000                     | 143,681                               | 283,681             |
| 2028  | 145,000                     | 140,531                               | 285,531             |
| 2029  | 145,000                     | 137,087                               | 282,087             |
| 2030  | 150,000                     | 133,644                               | 283,644             |
| 2031  | 155,000                     | 129,706                               | 284,706             |
| 2032  | 160,000                     | 125,638                               | 285,638             |
| 2033  | 165,000                     | 121,238                               | 286,238             |
| 2034  | 170,000                     | 116,700                               | 286,700             |
| 2035  | 180,000                     | 111,600                               | 291,600             |
| 2036  | 185,000                     | 106,200                               | 291,200             |
| 2037  | 1,645,000                   | 100,650                               | 1,745,650           |
| 2038  | 1,710,000                   | 51,300                                | 1,761,300           |
| 2039  |                             |                                       |                     |
| 2040  |                             |                                       |                     |
| 2041  |                             |                                       |                     |
| 2042  |                             |                                       |                     |
|   | <u>\$ 5,740,000</u>         | <u>\$ 2,338,562</u>                   | <u>\$ 8,078,562</u> |

See accompanying independent auditor's report.



**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

| S E R I E S - 2 0 1 9                       |                             |                                       |       |            |
|---|-----------------------------|---------------------------------------|-------|------------|
| Due During Fiscal<br>Years Ending<br>May 31 | Principal<br>Due<br>April 1 | Interest Due<br>October 1/<br>April 1 | Total |            |
| 2021  | \$ 155,000                  | \$ 446,763                            | \$    | 601,763    |
| 2022  | 160,000                     | 439,012                               |       | 599,012    |
| 2023  | 160,000                     | 431,013                               |       | 591,013    |
| 2024  | 165,000                     | 423,012                               |       | 588,012    |
| 2025  | 170,000                     | 414,763                               |       | 584,763    |
| 2026  | 175,000                     | 407,962                               |       | 582,962    |
| 2027  | 180,000                     | 400,963                               |       | 580,963    |
| 2028  | 180,000                     | 395,562                               |       | 575,562    |
| 2029  | 185,000                     | 390,163                               |       | 575,163    |
| 2030  | 190,000                     | 384,612                               |       | 574,612    |
| 2031  | 200,000                     | 378,913                               |       | 578,913    |
| 2032  | 205,000                     | 372,662                               |       | 577,662    |
| 2033  | 210,000                     | 366,000                               |       | 576,000    |
| 2034  | 215,000                     | 358,913                               |       | 573,913    |
| 2035  | 220,000                     | 351,387                               |       | 571,387    |
| 2036  | 225,000                     | 343,687                               |       | 568,687    |
| 2037  | 230,000                     | 335,813                               |       | 565,813    |
| 2038  | 225,000                     | 327,187                               |       | 552,187    |
| 2039  | 2,005,000                   | 318,751                               |       | 2,323,751  |
| 2040  | 2,080,000                   | 243,562                               |       | 2,323,562  |
| 2041  | 2,165,000                   | 165,563                               |       | 2,330,563  |
| 2042  | 2,250,000                   | 84,375                                |       | 2,334,375  |
|   | \$ 11,950,000               | \$ 7,780,638                          | \$    | 19,730,638 |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2020**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

| Due During Fiscal<br>Years Ending<br>May 31 | Total<br>Principal Due | Total<br>Interest Due | Total<br>Principal and<br>Interest Due |
|---|------------------------|-----------------------|--|
| 2021  | \$ 1,100,000           | \$ 1,207,845          | \$ 2,307,845                           |
| 2022  | 1,130,000              | 1,174,893             | 2,304,893                              |
| 2023  | 1,160,000              | 1,140,294             | 2,300,294                              |
| 2024  | 1,195,000              | 1,104,792             | 2,299,792                              |
| 2025  | 1,235,000              | 1,062,669             | 2,297,669                              |
| 2026  | 1,280,000              | 1,019,967             | 2,299,967                              |
| 2027  | 1,325,000              | 974,469               | 2,299,469                              |
| 2028  | 1,370,000              | 928,244               | 2,298,244                              |
| 2029  | 1,420,000              | 879,663               | 2,299,663                              |
| 2030  | 1,475,000              | 829,045               | 2,304,045                              |
| 2031  | 1,535,000              | 774,439               | 2,309,439                              |
| 2032  | 1,595,000              | 715,631               | 2,310,631                              |
| 2033  | 1,660,000              | 653,608               | 2,313,608                              |
| 2034  | 1,088,524              | 1,198,439             | 2,286,963                              |
| 2035  | 1,745,000              | 569,237               | 2,314,237                              |
| 2036  | 1,810,000              | 504,137               | 2,314,137                              |
| 2037  | 1,875,000              | 436,463               | 2,311,463                              |
| 2038  | 1,935,000              | 378,487               | 2,313,487                              |
| 2039  | 2,005,000              | 318,751               | 2,323,751                              |
| 2040  | 2,080,000              | 243,562               | 2,323,562                              |
| 2041  | 2,165,000              | 165,563               | 2,330,563                              |
| 2042  | 2,250,000              | 84,375                | 2,334,375                              |
|   | <u>\$ 34,433,524</u>   | <u>\$ 16,364,573</u>  | <u>\$ 50,798,097</u>                   |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**CHANGES IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MAY 31, 2020**

| Description   | Original<br>Bonds Issued    | Bonds<br>Outstanding<br>June 1, 2019 |
|---|-----------------------------|--------------------------------------|
| New Caney Municipal Utility District Unlimited<br>Tax Refunding Bonds - Series 2010 | \$ 1,745,000                | \$ 190,000                           |
| New Caney Municipal Utility District Unlimited<br>Tax Refunding Bonds - Series 2014 | 9,955,000                   | 9,130,000                            |
| New Caney Municipal Utility District Unlimited<br>Tax Refunding Bonds - Series 2015 | 7,258,524                   | 6,208,524                            |
| New Caney Municipal Utility District Unlimited<br>Tax Bonds - Series 2016           | 2,400,000                   | 2,010,000                            |
| New Caney Municipal Utility District Unlimited<br>Tax Bonds - Series 2016-A         | 6,105,000                   | 5,865,000                            |
| New Caney Municipal Utility District Unlimited<br>Tax Bonds - Series 2019           | <u>12,100,000</u>           | <u>12,100,000</u>                    |
| <b>TOTAL</b>  | <u><u>\$ 39,563,524</u></u> | <u><u>\$ 35,503,524</u></u>          |

| Bond Authority:             | <u>Tax Bonds</u>     | <u>Refunding Bonds</u> | <u>Defined<br/>Area Bonds</u> |
|-----------------------------|----------------------|------------------------|-------------------------------|
| Amount Authorized by Voters | \$ 64,985,000        | \$ 70,650,000          | \$ 10,780,000                 |
| Amount Issued               | <u>45,895,000</u>    | <u>858,524</u>         | <u>                    </u>   |
| Remaining to be Issued      | <u>\$ 19,090,000</u> | <u>\$ 69,791,476</u>   | <u>\$ 10,780,000</u>          |

|  |                            |
|--|----------------------------|
| Debt Service Fund cash, investments and cash with<br>Tax Assessor/Collector balances as of May 31, 2020: | <u><u>\$ 2,748,292</u></u> |
| Average annual debt service payment (principal and interest) for remaining term<br>of all debt:          | <u><u>\$ 2,309,004</u></u> |

See accompanying independent auditor's report.

| Current Year Transactions |                     |                     |                                   |                                      |
|---------------------------|---------------------|---------------------|-----------------------------------|--------------------------------------|
| Bonds Sold                | Retirements         |                     | Bonds Outstanding<br>May 31, 2020 | Paying Agent                         |
|                           | Principal           | Interest            |                                   |                                      |
| \$                        | \$ 190,000          | \$ 7,125            | \$ - 0 -                          | Wells Fargo Bank N.A.<br>Houston, TX |
|                           | 220,000             | 359,350             | 8,910,000                         | BOKF, N.A.<br>Austin, TX             |
|                           | 255,000             | 209,637             | 5,953,524                         | BOKF, N.A.<br>Austin, TX             |
|                           | 130,000             | 48,012              | 1,880,000                         | BOKF, N.A.<br>Austin, TX             |
|                           | 125,000             | 162,331             | 5,740,000                         | BOKF, N.A.<br>Austin, TX             |
|                           | 150,000             | 454,514             | 11,950,000                        | UMB Bank, N.A.<br>Austin, TX         |
| <u>\$ - 0 -</u>           | <u>\$ 1,070,000</u> | <u>\$ 1,240,969</u> | <u>\$ 34,433,524</u>              |                                      |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

|                                       | Amounts             |                     |                     |
|---------------------------------------|---------------------|---------------------|---------------------|
|                                       | 2020                | 2019                | 2018                |
| <b>REVENUES</b>                       |                     |                     |                     |
| Water Service                         | \$ 1,616,424        | \$ 1,434,181        | \$ 1,489,295        |
| Wastewater Service                    | 1,147,645           | 1,095,866           | 1,079,591           |
| San Jacinto River Authority Fees      | 1,060,730           | 943,865             | 926,548             |
| Penalty and Interest                  | 70,832              | 80,128              | 75,030              |
| Tap Connection and Inspection Fees    | 271,840             | 325,588             | 330,449             |
| Investment and Miscellaneous Revenues | 38,568              | 106,629             | 37,243              |
| <b>TOTAL REVENUES</b>                 | <b>\$ 4,206,039</b> | <b>\$ 3,986,257</b> | <b>\$ 3,938,156</b> |
| <b>EXPENDITURES</b>                   |                     |                     |                     |
| Personnel                             | \$ 1,586,766        | \$ 1,494,806        | \$ 1,370,173        |
| Professional Fees                     | 83,803              | 99,843              | 86,382              |
| Utilities                             | 250,582             | 241,527             | 241,403             |
| Repairs and Maintenance               | 307,163             | 218,832             | 279,429             |
| San Jacinto River Authority Costs     | 1,111,580           | 1,066,344           | 1,006,052           |
| Other                                 | 594,229             | 518,818             | 491,481             |
| Capital Outlay                        | 264,018             | 111,526             | 177,909             |
| <b>TOTAL EXPENDITURES</b>             | <b>\$ 4,198,141</b> | <b>\$ 3,751,696</b> | <b>\$ 3,652,829</b> |
| <b>NET CHANGE IN FUND BALANCE</b>     | <b>\$ 7,898</b>     | <b>\$ 234,561</b>   | <b>\$ 285,327</b>   |
| <b>BEGINNING FUND BALANCE</b>         | <b>3,128,998</b>    | <b>2,894,437</b>    | <b>2,609,110</b>    |
| <b>ENDING FUND BALANCE</b>            | <b>\$ 3,136,896</b> | <b>\$ 3,128,998</b> | <b>\$ 2,894,437</b> |

See accompanying independent auditor's report.

|                     |                     | Percentage of Total Revenues |                |                |                |                |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2017                | 2016                | 2020                         | 2019           | 2018           | 2017           | 2016           |
| \$ 1,347,662        | \$ 1,223,695        | 38.4 %                       | 35.9 %         | 37.9 %         | 36.5 %         | 36.1 %         |
| 1,027,113           | 974,147             | 27.3                         | 27.5           | 27.4           | 27.8           | 28.8           |
| 853,195             | 744,327             | 25.2                         | 23.7           | 23.5           | 23.1           | 22.0           |
| 76,307              | 70,872              | 1.7                          | 2.0            | 1.9            | 2.1            | 2.1            |
| 353,192             | 320,619             | 6.5                          | 8.2            | 8.4            | 9.6            | 9.5            |
| 33,328              | 50,863              | 0.9                          | 2.7            | 0.9            | 0.9            | 1.5            |
| <u>\$ 3,690,797</u> | <u>\$ 3,384,523</u> | <u>100.0 %</u>               | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| <br>                |                     |                              |                |                |                |                |
| \$ 1,271,077        | \$ 1,163,193        | 37.7 %                       | 37.5 %         | 34.8 %         | 34.4 %         | 34.4 %         |
| 96,366              | 104,117             | 2.0                          | 2.5            | 2.2            | 2.6            | 3.1            |
| 238,880             | 234,636             | 6.0                          | 6.1            | 6.1            | 6.5            | 6.9            |
| 259,795             | 230,722             | 7.3                          | 5.5            | 7.1            | 7.0            | 6.8            |
| 870,454             | 763,737             | 26.4                         | 26.8           | 25.5           | 23.6           | 22.6           |
| 470,013             | 401,089             | 14.1                         | 13.0           | 12.5           | 12.7           | 11.9           |
| 77,782              | 276,340             | 6.3                          | 2.8            | 4.5            | 2.1            | 8.2            |
| <u>\$ 3,284,367</u> | <u>\$ 3,173,834</u> | <u>99.8 %</u>                | <u>94.2 %</u>  | <u>92.7 %</u>  | <u>88.9 %</u>  | <u>93.9 %</u>  |
| <br>                |                     |                              |                |                |                |                |
| \$ 406,430          | \$ 210,689          | 0.2 %                        | 5.8 %          | 7.3 %          | 11.1 %         | 6.1 %          |
| <br>                |                     |                              |                |                |                |                |
| <u>2,202,680</u>    | <u>1,991,991</u>    |                              |                |                |                |                |
| <br>                |                     |                              |                |                |                |                |
| <u>\$ 2,609,110</u> | <u>\$ 2,202,680</u> |                              |                |                |                |                |

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

|  | Amounts             |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | 2020                | 2019                | 2018                |
| <b>REVENUES</b>  |                     |                     |                     |
| Property Taxes   | \$ 2,277,797        | \$ 2,275,213        | \$ 1,900,082        |
| Penalty and Interest   | 65,531              | 74,394              | 58,859              |
| Investment and Miscellaneous Revenues                        | 5,332               | 4,807               | 2,679               |
| <b>TOTAL REVENUES</b>  | <b>\$ 2,348,660</b> | <b>\$ 2,354,414</b> | <b>\$ 1,961,620</b> |
| <b>EXPENDITURES</b>  |                     |                     |                     |
| Tax Collection Expenditures                                  | \$ 46,354           | \$ 42,593           | \$ 36,144           |
| Debt Service Principal                                       | 1,070,000           | 895,000             | 875,000             |
| Debt Service Interest and Fees                               | 1,245,997           | 898,571             | 834,373             |
| Bond Issuance Costs  | —                   | —                   | —                   |
| <b>TOTAL EXPENDITURES</b>                                    | <b>\$ 2,362,351</b> | <b>\$ 1,836,164</b> | <b>\$ 1,745,517</b> |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>\$ (13,691)</b>  | <b>\$ 518,250</b>   | <b>\$ 216,103</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                     |                     |
| Proceeds from Issuance of Long-Term Debt<br>Bond Premium     | \$ —                | \$ 100,588          | \$ —                |
| Payment to Refunded Bond Escrow Agent                        | —                   | —                   | —                   |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <b>\$ - 0 -</b>     | <b>\$ 100,588</b>   | <b>\$ - 0 -</b>     |
| <b>NET CHANGE IN FUND BALANCE</b>                            | <b>\$ (13,691)</b>  | <b>\$ 618,838</b>   | <b>\$ 216,103</b>   |
| <b>BEGINNING FUND BALANCE</b>                                | <b>2,761,983</b>    | <b>2,143,145</b>    | <b>1,927,042</b>    |
| <b>ENDING FUND BALANCE</b>                                   | <b>\$ 2,748,292</b> | <b>\$ 2,761,983</b> | <b>\$ 2,143,145</b> |
| <b>TOTAL ACTIVE RETAIL WATER<br/>CONNECTIONS</b>             | <b>4,093</b>        | <b>3,849</b>        | <b>3,493</b>        |
| <b>TOTAL ACTIVE RETAIL WASTEWATER<br/>CONNECTIONS</b>        | <b>3,873</b>        | <b>3,765</b>        | <b>3,685</b>        |

See accompanying independent auditor's report.

|                     |                     | Percentage of Total Revenues |                |                |                |                |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2017                | 2016                | 2020                         | 2019           | 2018           | 2017           | 2016           |
| \$ 1,685,830        | \$ 1,436,739        | 97.0 %                       | 96.6 %         | 96.9 %         | 94.6 %         | 94.8 %         |
| 93,942              | 75,294              | 2.8                          | 3.2            | 3.0            | 5.3            | 5.0            |
| 1,472               | 2,559               | 0.2                          | 0.2            | 0.1            | 0.1            | 0.2            |
| <u>\$ 1,781,244</u> | <u>\$ 1,514,592</u> | <u>100.0 %</u>               | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 42,860           | \$ 37,691           | 2.0 %                        | 1.8 %          | 1.8 %          | 2.4 %          | 2.5 %          |
| 735,000             | 610,000             | 45.6                         | 38.0           | 44.6           | 41.3           | 40.3           |
| 735,577             | 609,470             | 53.1                         | 38.2           | 42.5           | 41.3           | 40.2           |
|                     | 2,400               |                              |                |                |                | 0.2            |
| <u>\$ 1,513,437</u> | <u>\$ 1,259,561</u> | <u>100.7 %</u>               | <u>78.0 %</u>  | <u>88.9 %</u>  | <u>85.0 %</u>  | <u>83.2 %</u>  |
| <u>\$ 267,807</u>   | <u>\$ 255,031</u>   | <u>(0.7) %</u>               | <u>22.0 %</u>  | <u>11.1 %</u>  | <u>15.0 %</u>  | <u>16.8 %</u>  |
| \$ 141,781          | \$ 85,050           |                              |                |                |                |                |
| <u>\$ 141,781</u>   | <u>\$ 85,050</u>    |                              |                |                |                |                |
| \$ 409,588          | \$ 340,081          |                              |                |                |                |                |
| <u>1,517,454</u>    | <u>1,177,373</u>    |                              |                |                |                |                |
| <u>\$ 1,927,042</u> | <u>\$ 1,517,454</u> |                              |                |                |                |                |
| <u>3,738</u>        | <u>3,600</u>        |                              |                |                |                |                |
| <u>3,556</u>        | <u>3,573</u>        |                              |                |                |                |                |

See accompanying independent auditor's report.



**NEW CANEY MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MAY 31, 2020**

District Mailing Address - New Caney Municipal Utility District  
P. O. Box 1799  
New Caney, TX 77357

District Telephone Number - (281) 689-2327

| <b>Board Members</b> | Term of Office<br>(Elected or<br><u>Appointed</u> ) | Fees of office<br>for the<br>year ended<br><u>May 31, 2020</u> | Expense<br>reimbursements<br>for the<br>year ended<br><u>May 31, 2020</u> | <u>Title</u>                         |
|----------------------|---|--|---|--------------------------------------|
| William B. Smith     | 05/20<br>05/24<br>(Elected)                         | \$ 2,850   | \$ -0-  | President                            |
| Jerry R. Vernon      | 05/20<br>05/24<br>(Elected)                         | \$ 2,850   | \$ -0-  | Vice<br>President                    |
| Dorothy Rawlinson    | 05/18<br>05/22<br>(Elected)                         | \$ 3,300   | \$ -0-  | Secretary                            |
| Mathew J. Peterson   | 05/20<br>05/24<br>(Elected)                         | \$ 2,100   | \$ -0-  | Assistant<br>Secretary/<br>Treasurer |
| Tony A. Martinez Jr. | 05/18<br>05/22<br>(Elected)                         | \$ 2,100   | \$ -0-  | Treasurer                            |

Note: 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 Developer or with any of the District's consultants.

Submission Date of most recent District Registration Form: June 15, 2020

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on August 23, 2006. Fees of Office are the amounts actually paid to a Director during the District's fiscal year.

See accompanying independent auditor's report.

**NEW CANEY MUNICIPAL UTILITY DISTRICT  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MAY 31, 2020**

| <b>Employees:</b>                   | <u>Date Hired</u> | <u>Fees/Compensation<br/>for the fiscal<br/>year ended<br/>May 31, 2020</u> | <u>Title</u>            |
|-------------------------------------|-------------------|---|-------------------------|
| Richard McDonald                    | 2009              | \$ 100,240  | General<br>Manager      |
| <br><b>Consultants:</b>             |                   |   |                         |
| Johnson Petrov LLP                  | 11/16/17          | \$ 33,147   | General Counsel         |
| McCall Gibson Swedlund Barfoot PLLC | 1/20/05           | \$ 19,250<br>\$ 6,500   | Auditor<br>Bond Related |
| LJA Engineering                     | 01/18/07          | \$ 875,319  | Engineer                |
| Blitch Associates, Inc.             | 01/24/07          | \$ -0-  | Financial<br>Advisor    |
| Montgomery County Tax Office        | 01/19/84          | \$ 1,489  | Tax Collector           |

See accompanying independent auditor's report.

APPENDIX B—Specimen Municipal Bond Insurance Policy



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

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

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN