#### **OFFICIAL STATEMENT DATED FEBRUARY 18, 2021**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE BONDS ARE NOT PRIVATE ACTIVITY BONDS. SEE "TAX EXEMPTION" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The District designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "LEGAL MATTERS -Qualified Tax-Exempt Obligations."

NEW ISSUE—BOOK-ENTRY ONLY CUSIP No. 126133

# **RATINGS: Underlying "A1" Moody's** Insured "AA" (stable outlook) S&P / "A2" (stable outlook) Moody's See "UNDERLYING MUNICIPAL BOND RATING" and "BOND INSURANCE" herein

# \$8,305,000 **CNP UTILITY DISTRICT** (A political subdivision of the State of Texas, located in Harris County, Texas)

**UNLIMITED TAX BONDS** 

# SERIES 2021

#### Dated: March 1, 2021

Interest on the Bonds (the "Bonds" or the "Series 2021 Bonds") will accrue from March 1, 2021, and will be payable on October 1 and April 1 of each year, commencing October 1, 2021. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS - Paying Agent/Registrar."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").

### ASSURED UARANTY MUNICIPAL

#### MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

Principal				Principal			
Amount	<u>Maturity</u>	<b>Interest Rate</b>	Yield (a)	Amount	<u>Maturity</u>	<b>Interest Rate</b>	<u>Yield</u> (a)
\$250,000	2026	1.000%	0.55%	\$325,000	2035 (b)	2.000%	1.50%
\$250,000	2027 (b)	1.000%	0.70%	\$325,000	2036 (b)	2.000%	1.55%
\$250,000	2028 (b)	1.000%	0.85%	\$325,000	2037 (b)	2.000%	1.60%
\$275,000	2029 (b)	1.000%	1.00%	\$350,000	2038 (b)	2.000%	1.65%
\$275,000	2030 (b)	1.150%	1.15%	\$350,000	2039 (b)	2.000%	1.70%
\$275,000	2031 (b)	1.000%	1.25%	\$375,000	2040 (b)	2.000%	1.80%
\$300,000	2032 (b)	1.125%	1.35%	\$375,000	2041 (b)	2.000%	1.90%
\$300,000	2033 (b)	1.250%	1.45%	\$375,000	2042 (b)	2.000%	1.95%
\$300,000	2034 (b)	1.375%	1.55%				

\$800,000 2.00% Term Bond Due April 1, 2044 to Yield 2.000% (a) (b) (c) \$850,000 2.00% Term Bond Due April 1, 2046 to Yield 2.026% (a) (b) (c) \$1,380,000 2.00% Term Bond Due April 1, 2049 to Yield 2.047% (a) (b) (c)

- The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently (a) changed.
- The Bonds are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on April 1, 2026, or on (b) any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. See "THE BONDS-Optional Redemption Provisions."
- (c) Subject to mandatory sinking fund redemption as described herein. See "THE BONDS - Mandatory Redemption."

The proceeds of the Bonds will be used by CNP Utility District (the "District") to finance: (1) certain water supply facilities; (2) certain wastewater treatment plant facilities; (3) reimburse two developers (herein defined) for certain water, sewer, drainage, and detention costs and related developer interest costs; and (4) certain costs associated with the issuance of the Bonds. See "USE OF BOND PROCEEDS." The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source and Security for Payment." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston, is pledged to the payment of the principal of or interest on the Bonds. The Bonds are subject to certain investment considerations described under the caption "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Marks Richardson PC, Houston, Texas, Bond Counsel. Certain other matters will be passed upon for the District by Norton Rose Fulbright US LLP, Houston, Texas, as Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about March 26, 2021.

Due: April 1 (as shown below)

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

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

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

All of the summaries of the statutes, resolutions, 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 Bond Counsel, upon payment of the costs of duplication.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

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

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

#### SALE AND DISTRIBUTION OF THE BONDS

#### Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 98.406287% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 1.956167%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

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 cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

### Price and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have 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 regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the 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.

#### Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been

registered or qualified under the securities laws of any other jurisdiction. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

### CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15-c2-12

In the Bond Order, the District 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 to securities brokers and others who purchase the information from the information vendors.

#### Annual Reports

The District will provide to the MSRB through the Electronic Municipal Market Access ("EMMA") System or such other SEC method approved by the SEC, financial information and operating data with respect to the District that is of general type included in the Official Statement, and is customarily prepared by the District and publicly available. See "Availability of Information from EMMA." Any such information and data provided will be the information and data included in the latest annual update of such information. The financial information and operating data which will be provided with regard to the District can be found in APPENDIX A.

Under current Texas law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial statements audited by a certified public accountant within 120 days after the close of each fiscal year of the District, and must file such audited financial statements with the Texas Commission on Environmental Quality (herein "TCEQ" or the "Commission") within 135 days after the close of the fiscal year. The District's fiscal records and audited financial statements are available for public inspection during regular business hours, and the District and the TCEQ are required by law to provide a copy of the District's audited financial statements to any member of the public within a reasonable time on request, upon payment of applicable copying charges. Requests for copies should be addressed to the District in care of Marks Richardson PC, Houston, Texas.

The District's current fiscal year ends October 31. Accordingly, it must provide updated information by April 30, in each year beginning 2021, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### Material Event Notices

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

### Availability of Information from EMMA

The District has agreed to provide the foregoing updated information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.org.

#### Limitations and Amendments

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

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

#### Compliance with Prior Undertakings

The District has materially complied with all its continuing disclosure agreements in accordance with SEC Rule 15-c2-12 during the past five years.

#### UNDERLYING MUNICIPAL BOND RATING

In connection with the sale of the Bonds the District made application to Moody's Investors Service, Inc. ("Moody's") which assigned the underlying rating of "A1" on the Bonds based upon the District's underlying credit without bond insurance. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if in the judgment of 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.

# MUNICIPAL BOND INSURANCE AND RATINGS

Moody's has assigned its municipal bond rating of "A1" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The rating is the highest of: (i) the guarantor's financial strength rating, (ii) any published underlying rating on the security, or (iii) any published enhanced rating based on a state credit enhancement program. The financial strength of AGM is currently rated "A2" (stable outlook) by Moody's. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if in the judgment of 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. See "BOND INSURANCE" and "APPENDIX B.

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P'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. See "BOND INSURANCE" and "APPENDIX B."

# **BOND INSURANCE**

### Bond Insurance Policy

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

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

### Assured Guaranty Municipal Corp.

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

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

#### Current Financial Strength Ratings

On October 29, 2020, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

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

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

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

#### Capitalization of AGM

#### At September 30, 2020:

- The policyholders' surplus of AGM was approximately \$2,671 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,042 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,111 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc ("AGE UK") and Assured Guaranty (Europe) SA ("AGE SA"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned

premium reserves and net deferred ceding commissions of AGE UK and AGE SA were determined in accordance with accounting principles generally accepted in the United States of America.

#### Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (filed by AGL with the SEC on August 7, 2020).
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020 (filed by AGL with the SEC on November 6, 2020).

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

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

#### Miscellaneous Matters

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

# **OFFICIAL STATEMENT SUMMARY**

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

#### THE BONDS

**Description:** CNP Utility District Unlimited Tax Bonds, Series 2021 (the "Bonds"), issued pursuant to an order (the "Bond Order") of the Board of Directors of CNP Utility District, (the "District"). The Bonds will be dated March 1, 2021, with interest payable commencing October 1, 2021, and each April 1 and October 1 thereafter until the earlier of maturity or redemption. **Book-Entry-Only** System: The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM." Redemption Provisions: The District reserves the right to redeem the Bonds, in whole or in part, on April 1, 2026, or from time to time on any date thereafter, at a price equal to par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS - Optional Redemption Provisions." The Bonds maturing on April 1, 2044, 2046, and 2049 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on April 1 in the years 2043, 2045, and 2047 respectively. See "THE BONDS - Mandatory Redemption." Source of Payment: Principal of and interest on the Bonds are payable from a continuing direct annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas. Harris County or any other political subdivision or agency. See "THE BONDS -- Source and Security for Payment." Proceeds from the sale of bonds will be used to finance: (1) certain water supply facilities; (2) wastewater Use of Proceeds: treatment plant facilities; (3) reimburse two developers for certain water, sewer, drainage, and detention costs and related developer interest costs; and (4) fund certain costs associated with the issuance of the Bonds. See "USE OF BOND PROCEEDS." Legal Opinion: Marks Richardson PC, Bond Counsel, Houston, Texas. The District has previously issued 18 series of bonds totaling \$83,710,000 beginning in 1971. The District **Payment Record:** has not defaulted in payment of principal of or interest on its bonded indebtedness. **Paying Agent/Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. Qualified Tax-Exempt **Obligations:** The District designated the Bonds as "qualified tax-exempt obligations." See "LEGAL MATTERS -Qualified Tax Exempt Obligations." Investment **Considerations:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds particularly the section captioned "INVESTMENT CONSIDERATIONS." **Municipal Bond** In connection with the sale of the Bonds, the District made an application to Moody's which assigned its Rating: municipal bond rating of "A1" to this issue of Bonds based upon the District's underlying credit without bond insurance. See "UNDERLYING MUNICIPAL BOND RATING." Municipal Bond Insurance and Ratings: Moody's has assigned its municipal bond rating of "A1" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The rating is the highest of: (i) the guarantor's financial strength rating, (ii) any published underlying rating on the security, or (iii) any published enhanced rating based on a state credit enhancement program. The financial strength of AGM is currently rated "A2" (stable outlook) by Moody's. S&P has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. See "MUNICIPAL BOND INSURANCE AND RATINGS," "BOND INSURANCE" and "APPENDIX B - Specimen Municipal Bond Insurance Policy."

# THE DISTRICT

	THE DISTRICT
Description: Development of the	The District is a political subdivision of the State of Texas, created by the 61st Texas Legislature on June 12, 1969, and operates pursuant to Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District is located entirely within Harris County, Texas, and the extraterritorial jurisdiction of the City of Houston, Texas (the "City" or "Houston"). The District is located approximately 21 miles north of the central business district of the City. The District is generally bounded by Interstate Highway 45 on the east and Cypress Creek on the north and is bisected by F.M. 1960 from southwest to northeast. The District is wholly within the extraterritorial jurisdiction of the City and lies within Spring Independent School District. See "THE DISTRICT."
District:	The District currently contains approximately 834 acres, of which approximately 464 acres are developed and improved (built upon); approximately 108 acres are developed and unimproved (not yet built upon); approximately 58 additional acres are developable; and approximately 204 acres that are undevelopable consisting of acreage in the Harris County Flood Control easements, the 100 year flood plain, drainage, easements, District plant sites, roadways and electrical power easements. Land within the District has been developed as Cypress Station, a multi-use development including commercial/retail, office, suburban motel(s), automobile dealership(s), and multi-family residential developments.
	Approximately 209 acres have been developed for multi-family residential use, with 18 apartment complexes, 1 motel with kitchenettes, and 1 townhome complex. Such multi-family residential development contains a total of 4,643 living units.
	Further development within the district includes completed office facilities consisting of 7 different office buildings situated on 71 acres and ranging from 1 to 8 stories. Two long-term care/assisted living centers are also located in the District.
	Commercial/retail facilities have been constructed on approximately 186 acres. There are two large retail shopping centers in the District totaling 254,500 square feet, which contain 11 restaurants, 2 furniture stores, and a number of other retail tenants. In addition, there are 4 banking/savings and loan facilities, 2 warehouse-type discount stores, 5 extended stay/limited service hotels, and 7 automobile dealerships within the District. See "THE DISTRICT – Status of Development."
	Interstate Commerce Center, LLC ("Interstate") purchased approximately 50.76 acres of land for the purpose of developing a light industrial/warehouse and distribution development in the District in the second quarter of 2014. As of January 1, 2018, Interstate constructed two multi-tenant buildings (approximately 413,000 square feet); both buildings are fully leased. At the present time, Interstate owns approximately 25 acres of unimproved land in the District. See "THE DISTRICT – Commercial Development in the District Currently Underway." While no definitive building development plans exist at this time, Interstate believes that it will begin construction on a third multi-tenant building (approximately 200 square feet) sometime during calendar year 2018.
	The District's water, sewer, and drainage systems are substantially complete. Based on anticipated land uses at this time, the District has adequate water plant and sewer plant capacity to serve all remaining developable but unimproved land within the District. See "DESCRIPTION OF THE SYSTEM."
Hurricane Harvey: Infectious Disease	During Hurricane Harvey, the District's system remained operational and there was no interruption of water and sewer services. Approximately 15 homes in the District experienced flooding during Hurricane Harvey. See "RISK FACTORS."
Outlook (COVID-19):	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. As described herein under "RISK FACTORS – Infectious Disease Outlook (COVID-19)", federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.
	Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are

the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not necessarily indicative of the economic impact of the Pandemic on the District's financial condition.

# SELECTED FINANCIAL INFORMATION (Unaudited)

2020 Taxable Valuation	\$734,042,301	(a)
Direct Debt (See "DISTRICT DEBT") Outstanding Bonds (as of 3/1/2021 The Bonds <b>Total</b>	\$24,970,000 <u>\$8,305,000</u> <b>\$33,275,000</b>	
Estimated Overlapping Debt	\$36,192,141	
Direct and Estimated Overlapping Debt	\$69,467,141	
Percentage of Direct Debt to: 2020 Taxable Valuation See "DISTRICT DEBT"	4.53%	
Percentage of Direct and Estimated Overlapping Debt to: 2020 Taxable Valuation See "DISTRICT DEBT"	9.46%	
2020 Tax Rate Per \$100 of Assessed Value Debt Service Maintenance Tax <b>Total 2020 Tax Rate</b>	\$0.28 <u>\$0.00</u> <b>\$0.28</b>	
Pro-Forma General Fund Cash and Investment Balance (12/1/2021) Pro-Forma Debt Service Fund Cash and Investment Balance (12/1/2021)	\$5,450,659 \$1,723,409	(b)

<sup>(</sup>a) Reflects data supplied by the Harris County Appraisal District ("HCAD"). The figure above does not include \$17,926,436 of property value that is still in the process of being certified by HCAD. See "TAX DATA."

<sup>(</sup>b) Neither Texas law nor the District's Bond Order requires the District to maintain any particular balance in the Debt Service Fund.

# DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the District's outstanding bonds plus the debt service on the Series 2021 Bonds.

	Existing Debt Service	Debt Servi Series 202	Total Debt Service	
Year	Requirements	Principal	Interest	Requirements
2021	\$1,728,155	•	\$84,007	\$1,812,162
2022	\$1,767,305		\$144,012	\$1,911,317
2023	\$1,759,986		\$144,012	\$1,903,998
2024	\$1,766,818		\$144,012	\$1,910,830
2025	\$1,772,205		\$144,012	\$1,916,217
2026	\$1,516,743	\$250,000	\$142,762	\$1,909,505
2027	\$1,630,193	\$250,000	\$140,262	\$2,020,455
2028	\$1,636,899	\$250,000	\$137,762	\$2,024,661
2029	\$1,637,018	\$275,000	\$135,137	\$2,047,155
2030	\$1,645,343	\$275,000	\$132,181	\$2,052,524
2031	\$1,676,037	\$275,000	\$129,225	\$2,080,262
2032	\$1,624,593	\$300,000	\$126,162	\$2,050,755
2033	\$1,675,559	\$300,000	\$122,600	\$2,098,159
2034	\$1,678,293	\$300,000	\$118,662	\$2,096,955
2035	\$1,693,975	\$325,000	\$113,350	\$2,132,325
2036	\$1,579,862	\$325,000	\$106,850	\$2,011,712
2037	\$852,625	\$325,000	\$100,350	\$1,277,975
2038	\$855,312	\$350,000	\$93,600	\$1,298,912
2039	\$856,703	\$350,000	\$86,600	\$1,293,303
2040	\$856,721	\$375,000	\$79,350	\$1,311,071
2041	\$855,953	\$375,000	\$71,850	\$1,302,803
2042	\$854,218	\$375,000	\$64,350	\$1,293,568
2043	\$876,125	\$400,000	\$56,600	\$1,332,725
2044	\$871,671	\$400,000	\$48,600	\$1,320,271
2045	<u>\$890,859</u>	\$425,000	\$40,350	\$1,356,209
2046		\$425,000	\$31,850	\$456,850
2047		\$450,000	\$23,100	\$473,100
2048		\$450,000	\$14,100	\$464,100
2049		<u>\$480,000</u>	<u>\$4,800</u>	<u>\$484,800</u>
	\$34,559,171	\$8,305,000	\$2,780,508	\$45,644,679

Maximum Annual Debt Service Requirements (2035)	\$2,132,325
\$0.31 Tax Rate on the 2020 Taxable Value of \$734.042.301	

$\psi$ . ST TAX Male of the 2020 Taxable value of $\psi$ 54,042,301	
@ 95% collections produces\$2	2 161,755

### OFFICIAL STATEMENT relating to

#### \$8,305,000

# CNP UTILITY DISTRICT (A political subdivision of the State of Texas, located within Harris County, Texas)

# UNLIMITED TAX BONDS

# SERIES 2021

#### **INTRODUCTION**

This Official Statement provides certain information in connection with the issuance of CNP Utility District, Unlimited Tax Bonds, Series 2021 (the "Series 2021 Bonds").

The Bonds are issued pursuant to Article XVI, Section59 of the Texas constitution, general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water code, as amended, Chapter 1207, Texas government Code, as amended, and an order (the "Bond Order") adopted by the Board of Directors (the "Board") of CNP Utility District (the "District").

This Official Statement includes descriptions of the Bonds, the Bond Order, the District, and certain information about the District's financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Bond Counsel upon payment of costs of duplication thereof.

#### **INVESTMENT CONSIDERATIONS**

# <u>General</u>

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision. The Bonds are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other taxing authorities. The District cannot and does not make any representations that over the life of the Bonds, the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners.

# Infectious Disease Outlook (COVID-19)

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

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

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

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

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

#### Tax Collections

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 foreclosure may be impaired by: (a) repetitive, annual expensive collections procedures, (b) a federal bankruptcy court's stay of tax collection procedures, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such 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.

### **Registered Owners' Remedies**

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

### Approval of the Bonds

As required by law, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. Neither the TCEQ nor the Attorney General of Texas passes upon; or guarantees the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

# Potential Effects of Oil Price Declines on the Houston Area

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

### Economic Factors and Interest Rates

A substantial percentage of the taxable values of the District are derived from the current market value of commercial improvements, tracts developed for commercial purposes, and undeveloped tracts planned for commercial development. The market value of such tracts is related to general economic conditions affecting the demand for commercial and office space. Demand for tracts of this type and the construction of commercial projects thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of such tracts is directed. Decreased levels of construction activity or reduced resale value of such tracts would tend to restrict the growth of property values in the District or could adversely impact such values.

The commercial real estate industry in the Houston area is competitive, and the District can give no assurance that development programs will be implemented or completed. The sale of developed commercial tracts and the competitive position of prospective builders in the construction of commercial establishments are affected by most of the factors discussed herein. The District's ability to pay debt service payments on its Bonds and Outstanding Bonds is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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, and again in 2007 – 2011, 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, commercial, and construction industries. The Houston economy is still dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the local economy.

# Competition

Alternative sites are available for the construction of new multi-family residential, retail, and commercial improvements within the market area in which the District is located. Such sites could pose competition to the maintenance of District taxable values.

# Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$22,069,375.80 of authorized but unissued unlimited tax refunding bonds, the remaining \$6,020,000 authorized but unissued unlimited tax park bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. See " – Financing Parks and Recreational Facilities" herein. At this time, the District has no immediate plans to issue any additional unlimited tax bonds, unlimited tax refunding bonds, or unlimited tax park bonds but, additional facilities may be required or desired by the District in the future because of growth in the District or changes in regulatory requirements.

# Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has completed a park plan and conducted a park bond election. The District voters authorized \$10,000,000 of unlimited tax park bonds on May 12, 2007. The District sold \$3,980,000 park bonds in August 2008. The Board has no plans to issue any additional park bonds at this time.

### Continuing Compliance with Certain Covenants

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

# Conversion to Surface Water

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003, a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan if the District's total water demand beginning January 2035. If the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The NHCRWA submitted its groundwater reduction plan to the Subsidence District and received approval on June 11, 2003. This plan covers the northern part of Harris County, including the area of the District, and the District should not owe any disincentive fees to the Subsidence District if the plan is carried out. Pursuant to the plan, the NHCRWA entered into a contract with the City to purchase and treat surface water for delivery to retail water utilities in the NHCRWA area, including the District. The District does not purchase any of its water from the NHCRWA and currently pays to the NHCRWA a ground water pumpage fee of \$4.70 per 1,000 gallons. Other entities that purchase surface water from the NHCRWA pay a \$5.05 per 1,000 gallons fee to the NHCRWA for the delivery of surface water. Such fees are subject to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to develop additional surface water infrastructure or to further support the Authority's regional surface water conversion effort.

# **Environmental and Air Quality Regulations**

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

• Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;

- Restricting the manner in which wastes are treated and released into the air, water and soils;
- · Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

#### Bond Insurance Risk Factors

If a bond insurance policy is obtained securing principal of and interest on the Bonds, in the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. payment of principal and interest in connection with optional prepayment of the Bonds by the issuer that is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Default of payment of principal of and interest on the Bonds does not accelerate the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies, and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

Neither the District nor Underwriter has made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

### 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. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if 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.

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

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

A district cannot be placed into bankruptcy involuntarily.

#### Bond Insurance Investment Considerations

If a bond insurance policy is obtained securing principal of and interest on the Bonds, then in the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason or optional redemption or acceleration resulting from default or otherwise, other than any

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

Default of payment of principal of and interest on the Bonds does not accelerate the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies, and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

Neither the District nor the Underwriter have made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest on the Bonds and the claims-paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

### Hurricane Harvey

The Houston area (including Harris County) sustained widespread rain and flooding damage 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 observations of the District's Operator and the District's Engineer, the District's System did not sustain any significant damage and there was no interruption of water and sewer service. According to observations of the District's Operator and the District experienced some flooding during Hurricane Harvey.

On or about August 23, 2017, in anticipation of Harvey's landfall, Governor Greg Abbott issued a proclamation declaring a state of disaster in numerous counties located along the Texas gulf coast, including Harris County. 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.

# Inclement Weather

The District is located approximately 70 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected.

# Specific Flood Risks

<u>Ponding (or Pluvial) Flooding</u> – 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.

<u>Riverine (or Fluvial) Flooding</u> – 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.

### Tax Payment Installments

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.

### Harris County and City of Houston Floodplain Regulations

As a direct result of Hurricane Harvey, Harris County and the City of Houston adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harry County regulations took effect on January 1, 2018, and the new and amended City of Houston regulations took effect on September 1, 2018.

The Harris County floodplain regulations govern construction projects in unincorporated Harris County and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally, the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation.

The City of Houston floodplain regulations govern construction projects in the corporate jurisdiction of the City of Houston and include regulations governing the elevation of structures in the 100-year and 500-year floodplains and the elevation of residential additions greater than one-third the footprint of the existing structure and non-residential additions. Additionally, the City of Houston regulations require an improved structure whose new market value exceeds 50% of the market value of the structure prior to the start of improvements meet the new and amended City of Houston regulations.

The new and amended Harris County and City of Houston regulations may have a negative impact on new development in those subdivisions in the District that are within Harris County or in the City of Houston's extraterritorial jurisdiction.

# <u>Atlas 14</u>

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

# **USE OF BOND PROCEEDS**

Proceeds from the sale of bonds will be used to finance: (1) certain water supply facilities; (2) wastewater treatment plant facilities; (3) reimburse two developers for certain water, sewer, drainage, and detention costs and related developer interest costs; and (4) fund certain costs associated with the issuance of the Bonds.

The Engineer has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds as approved by the TCEQ is as follows:

CONSTRUCTION COSTS:	<u>Total</u> <u>Amount</u>	(a)
Developer Contribution Items		
Prologis Waterline & Force Main Extension	\$189,574	
Prologis Waterline & Detention Pond	\$340,247	
ICC Phase II Drainage Improvements	\$115,062	
North 45 Commerce Park - W & D	\$358,757	
Engineering & Technical Services	<u>\$238,420</u>	
Total Developer Contribution Items	\$1,242,060	
District Items		
Wastewater Treatment Plant & Water Plant SCADA System Replacement	\$600,000	
Elevated Storage Tank Recoating	\$583,000	
Water Plant No. 1 Recoating	\$288,000	
Water Plant No. 1 Motor Control Center Replacement	\$683,000	
Water Plant No. 2 Improvements	\$137,000	
Wastewater Treatment Plant Improvements - Phase II	\$1,713,750	
Contingencies	\$400,400	
Engineering	\$749,395 \$1,057,546	
Detention Pond Land Acquisition Costs Total District Items	<u>\$1,057,546</u> <b>\$6,212,091</b>	
	<b>\$0,212,091</b>	
TOTAL CONSTRUCTION COSTS	\$7,454,151	
NON-CONSTRUCTION COSTS:		
Legal Fees	\$217,625	
Fiscal Agent Fees	\$166,100	
Developer Interest	\$83,896	
Bond Discount	\$249,150	
Bond Issuance Expenses	\$45,010	
Bond Application Report Costs	\$60,000	
Attorney General Fee	\$8,305	
TCEQ Bond Issuance Fee	\$20,763	
	<u>\$116,793</u>	(b)
TOTAL NON-CONSTRUCTION COSTS	\$850,849	
TOTAL BOND ISSUE REQUIREMENT	\$8,305,000	

<sup>(</sup>a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. The District was granted a waiver of the 30% Developer contribution rule by the TCEQ.

<sup>(</sup>b) The TCEQ Order requires that the District designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the rate initially projected in the District's Bond Application to the TCEQ as a contingency line item in the Final Official Statement. Such funds may be used by the District only in accordance with the TCEQ rules.

# THE BONDS

### <u>General</u>

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and authorizes certain members of the Board of Directors of the District to approve and execute, on behalf of the Board of Directors of the District, a certificate (the "Pricing Certificate") which, along with the Bond Order prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description**

The Bonds will be dated March 1, 2021, with interest payable on October 1, 2021, and on each April 1 and October 1 thereafter (the "Interest Payment Date") until the earlier of maturity or redemption. The Bonds mature on April 1 of the years and in the amounts shown under "MATURITIES, AMOUNTS, INTEREST RATES AND PRICES" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be initially registered and delivered only to CEDE & Co. the nominee of the Depository Trust Company ("DTC") pursuant to the bookentry only system described herein. No physical delivery of the Bonds will be made by the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable at the paying agent/registrar to CEDE & Co. which will make distribution of the amount so paid to the beneficial owners of the bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. Interest calculations are based upon a 360-day year comprised of twelve 30-day months.

### Authority for Issuance

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order, the Pricing Certificate, Article XVI, Section 59 of the state of Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and the Bond Order.

### Source and Security for Payment

The Bonds are secured by and payable 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. See "TAXING PROCEDURES." The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City, Harris County, the State of Texas, or any political subdivision or entity other than the District.

### <u>Funds</u>

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

### Record Date

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

#### **Optional Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2026, or from time to time thereafter or any date, at a price equal to the principal amount thereof plus accrued interest thereon from the most recent interest payment date through the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures, so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given at least 30 calendar days prior to the date fixed for redemption, in the manner specified in the Bond Order.

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

# Mandatory Redemption

The Bonds maturing April 1 in the years 2044, 2046, and 2049 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

# \$800,000 Term Bonds, due April 1, 2044

Mandatory Redemption Date April 1, 2043 April 1, 2044 (maturity) Principal Amount \$400,000 \$400,000

# \$850,000 Term Bonds, due April 1, 2046

Mandatory Redemption Date

April 1, 2045 April 1, 2046 (maturity) Principal Amount \$425,000 \$425,000

### \$1,380,000 Term Bonds, due April 1, 2049

Mandatory Redemption Date

April 1, 2047 April 1, 2048 April 1, 2049 (maturity) Principal Amount \$450,000 \$450,000 \$480,000

#### Notice of Redemption; Partial Redemption

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal.

### Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

# **Registration**

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Registered Owner's income for federal income tax purposes. The Bonds will be issued as fully registered securities registered in the name of the Cede & Co. pursuant to the Book-Entry-System described herein. One fully Registered Bond will be issued for

each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one Paying Agent/Registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District, and the Paying Agent/Registrar shall provide for the registration, transfer and exchange of Bonds in accordance with the terms of the Bond Order.

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

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

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

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

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

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

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

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

# Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT--General." The District's voters have authorized the issuance of a total of \$51,255,000 unlimited tax or unlimited tax and revenue bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. After the issuance of the Bonds, the District will not have any unlimited tax or unlimited tax and revenue bonds that remain authorized but unissued. The District's voters have also authorized the issuance of a total of \$32,000,000 unlimited tax refunding bonds for the purpose of refunding previously issued bonds. The District has \$22,069,375.80 of unlimited tax refunding bonds that are currently authorized but unissued. The District voters have also authorized the issuance of \$10,000,000 park and recreational facility bonds. The District has a total of \$6,020,000 of park and recreational facility bonds that are currently authorized but unissued.

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

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

# Strategic Partnership Agreement – Limited Purpose Annexation by City of Houston

The District entered into a Strategic Partnership Agreement ("SPA") with the City of Houston (the "City") effective as of April 7, 2003, whereby the tracts of land containing commercial development were annexed into the City for the limited purpose of applying certain of the City's Planning, Zoning, Health and Safety Ordinances to the commercial businesses. The City imposes a Sales and

Use Tax within the annexed tracts on the receipts from the sales and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by the City from time to time. Under the SPA, one-half or 50% of the sales tax revenue generated by the commercial business will be paid to the District, and the District can use the sales tax for purposes for which the District is lawfully authorized to use its ad valorem tax revenues or other revenues or to (1) accelerate the development of the water, wastewater and drainage system in the District, (2) accelerate reimbursement to developers for eligible infrastructure development, (3) lower the overall property tax rate to encourage additional development, and (4) perform other District functions that might otherwise be diminished, curtailed, abbreviated or delayed by financial limitations.

Neither the District nor any owners of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

In consideration of the services provided by the City, in lieu of full purpose annexation, The District is required to pay the City an annual fee of \$100 on each anniversary of the date the SPA was approved by the City Council of the City. Under the SPA the City agrees that it will not annex all or part of the District for a period of 30 years.

The Bonds are not obligations of the City and the SPA does not obligate the City, either directly or indirectly to pay the principal of or interest on the Bonds.

### **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District may be annexed by the City without the District's consent, subject to compliance by the City with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Subject to the observance of and compliance by the City with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Effective December 1, 2017 this may include the requirement that the City hold an election in the District whereby the District's voters approve the annexation. If the District is annexed, the City must assume the District's assets and obligations (including the Bonds) and abolish the District within 90 days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

### **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

#### Remedies in Event of Default

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Bond Fund or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board of Directors of the District to observe and perform any covenant, obligation or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. If a Bondholder obtained a monetary judgment against the District, such judgment could not be satisfied by execution against any public-purpose property of the District. Further, Texas court decisions have held that statutory language authorizing districts to sue and be sued is insufficient to waive a district's sovereign immunity to suit for monetary damages. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "INVESTMENT CONSIDERATIONS – Registered Owners' Remedies."

#### **Defeasance**

The District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds and may defease the Bonds in accordance with the provisions of applicable laws, including, without limitation, Chapter 1207, Texas Government Code, as amended.

Chapter 1207 currently provides that the Bonds may be defeased by a deposit with the Comptroller of Public Accounts of the State of Texas or a Paying Agent of the District which may be invested only in obligations that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of the Bonds. The deposit may be invested and reinvested in (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts

or approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (3) noncallable obligations of a state or agency or a county; municipality; or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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

#### Financing Parks and Recreational Facilities

The Texas Constitution authorizes the Texas Legislature to enable conservation and reclamation districts in certain counties to develop and finance with property taxes certain parks and recreational facilities after a district election has been successfully held to approve a maintenance tax to support parks and recreational facilities and/or the issuance of bonds payable from taxes.

The Texas Legislature has enacted legislation allowing the District to levy an operation and maintenance tax to support parks and recreational facilities at a rate not to exceed 10 cents per \$100 of assessed value of taxable property in the District, after such tax is approved at an election. In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of parks and recreational facilities if (i) the District duly adopts a park plan; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed the lesser of 1% of the value of the taxable property in the District at the time of issuance of the bonds or the estimated cost of the park plan; (iv) the District obtains any necessary governmental consent allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations to be adopted by the TCEQ. See "INVESTMENT CONSIDERATIONS – Financing Parks and Recreational Facilities."

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

#### **Financing Road Facilities**

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

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

This section describes how ownership of the Securities is to be transferred and how the principal of, premium, if any, Maturity Value, and interest on the Securities are to be paid to and credited by DTC while the Securities 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, the Financial Advisor, 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 Securities, 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 Securities), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Securities, each in the aggregate principal amount or Maturity Value, as the case may be, of such maturity, 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. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a 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.

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

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Securities 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 the 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 Gis the case with Securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

### THE DISTRICT

#### General

The District is a municipal utility district created by the 61<sup>st</sup> Texas Legislature on June 12, 1969, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City, is subject to the continuing supervisory jurisdiction of the TCEQ.

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

The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

### Description and Location

The District presently contains approximately 834 acres of which approximately 464 acres have been developed and improved (built upon) and 108 acres are developed but not yet improved (not built upon). There are approximately 58 acres that are developable but have not yet been developed (such acreage may be developed for commercial purposes at some point in time in the future, but the District makes no representation that any such acreage will be developed at any point in time). The District includes approximately 204 acres that are not developable including: streets; sites for District plants and facilities; Harris County Flood Control District Drainage easements/detention facilities, electrical power easements, and approximately 152 acres in the 100 year floodplain area. The District is located approximately 21 miles north of the central business district of the City. The District is generally bounded by Interstate Highway 45 on the east and Cypress Creek on the north and is bisected by F.M. 1960 from southwest to northeast. The District is wholly within the extraterritorial jurisdiction of the City and lies within Spring Independent School District.

#### Status of Development

The land within the District has been developed as Cypress Station, a multi-use development including commercial/retail, office, suburban motel(s), automobile dealership(s), and multi-family residential developments. Proceeds from the sale of the District's previous bond issues were used to finance the construction of water distribution, wastewater collection, and storm drainage facilities serving essentially all of Cypress Station. Construction of utilities financed with proceeds from the sale of the District's previously issued bonds have been substantially completed. Additionally, proceeds from the sale of the District's previously issued bonds were used to provide funds for the construction of three water plants, a remote well, an elevated storage tank, and a 2,500,000 gallon per day wastewater treatment plant. Street paving necessary to provide access to the developed acreage within the District has been completed. According to the District's Engineer, based upon current development plans, the District's System is substantially completed.

Approximately 209 acres have been developed for multi-family residential use, with 18 apartment complexes, 1 motel with kitchenettes, and 1 townhome complex. Such multi-family residential development contains a total of approximately 4,643 living units.

Completed office facilities in the District presently includes 7 different office buildings situated on approximately 71 acres, ranging in size from 1 to 8 stories. Two long-term care/assisted living centers are also located in the District.

Commercial/retail facilities have been constructed on approximately 186 acres. There are 2 large retail shopping centers in the District totaling 254,500 square feet, which contain 14 restaurants, 2 furniture stores, and a number of other retail tenants. In addition, there are several smaller shopping centers, a small grocery store, 4 banking facilities/savings and loans, a dialysis center, 2 warehouse-type discount stores, 5 limited service/extended stay motels, a car rental establishment, and 7 automobile dealerships within the District.

Interstate Commerce Center, LLC ("Interstate") purchased approximately 50.76 acres of land for the purpose of developing a light industrial/warehouse and distribution development in the District in the second quarter of 2014. As of January 1, 2021, Interstate had constructed four multi-tenant buildings (approximately 746,533 square feet); the four building have either been sold by Interstate to end users or are buildings currently owned by Interstate that are substantially leased up as of January 2021. The District currently plans to reimburse Interstate a portion of their development costs with proceeds of the Bonds all in accordance with the Utility Development Agreement entered into between the District and Interstate.

In 2015 Urban 45, L.P. ("Urban") purchased approximately 32 acres of land from Prologis L.P. along with the rights to certain future reimbursements from the District. Since that time the 32 acres have been improved with an 11 acre Enterprise Car Rental facility (with approximately 16,609SF of improvements), one office/warehouse facility consisting of approximately 50,740SF (owned and occupied by a user), and four smaller office warehouse facilities, consisting of a total of approximately 25,650SF. There is currently 12.31 acres of developed land that remains to be improved, of which Urban owns 9.2081 acres. The District currently plans to reimburse Urban for a portion of the land development costs associated with the 32 acers, with proceed of the bonds all in accordance with the related Utility Development Agreement, with the District.



# VICINITY MAP



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# **Management**

The current members of the Board of Directors and Officers of the District, together with their titles on the Board, are listed below:

		TERM EXPIRES
NAME	TITLE	NOVEMBER
Renee S. Granberry	President	2024
Gregory M. Koch	Vice President	2022
Keith Brown	Secretary/Treasurer	2024
Ed Hudson	Assistant Secretary	2022
Kirk O'Neal	Director	2024
	5	

None of the Directors listed above reside within the District. However, each of the directors owns a small parcel of land within the District, which qualifies them to serve as directors. Directors have four year staggered terms. Director elections are held only in even-numbered years.

<u>Auditor</u> - The District has engaged BKD, LLP, Certified Public Accountants, as its independent auditor. The financial statements of the District as of October 31, 2019, and for the year then ended, have been audited by BKD, LLP independent auditors, as stated in their report appearing herein. See APPENDIX A for a copy of the District's October 31, 2019, financial statements.

<u>Tax Assessor/Collector</u> - The Tax Assessor/Collector for the District is appointed by the Board each year. B & A Municipal Tax Service, LLC is engaged by the District as Tax Assessor/Collector.

<u>Bookkeeper</u> - The District has engaged Municipal Accounts and Consulting, L.P. as bookkeeper and to perform certain other administrative duties. Municipal Accounts and Consulting, L.P. currently serves as bookkeeper for approximately 140 other municipal utility districts.

<u>Utility System Operator</u> - The District has engaged Municipal District Services, LLC ("MDS") to operate and maintain the District's System. MDS serves in a similar capacity to approximately 75 other municipal utility districts.

Engineer - The consulting engineer for the District is A & S Engineers, Inc. (the "Engineer"). A & S Engineers currently serves at engineer for approximately 30 other municipal utility districts.

<u>Financial Advisor</u> - The District has engaged The GMS Group, L.L.C., as Financial Advisor. Financial advisory fees related to the sale and delivery of the bonds are to be computed on each separate issuance of bonds, contingent upon such bonds being delivered. The GMS Group, L.L.C. also performs certain work for the District on an hourly fee basis.

<u>Bond Counsel and General Counsel</u> – Marks Richardson PC ("Bond Counsel") serves as Bond Counsel to the District. The fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. In addition, Marks Richardson PC also serves as General Counsel to the District on matters other than the issuance of bonds.

<u>Disclosure Counsel</u> - The District has engaged Norton Rose Fulbright US LLP, Houston, Texas as Disclosure Counsel in connection with the issuance of the Bonds. The fees are contingent upon the sale of the Bonds. Such firm does not represent the District on any other matters.

# **DESCRIPTION OF THE SYSTEM**

# <u>General</u>

The proceeds of the District's previously issued waterworks and sewer system combination unlimited tax and revenue bonds and unlimited tax bonds were used to finance the construction and/or acquisition of water distribution, sanitary sewage collection, and storm drainage facilities to serve all of the District, and to pay all expenses in any manner incidental thereto, in accordance with plans and specifications prepared by the Engineer. The previously issued waterworks and sewer system combination unlimited tax and revenue bonds and unlimited tax bonds also financed the construction and acquisition of water supply and storage facilities and a wastewater treatment plant for the District.

# **Regulation**

Construction and operation of the System as it now exists or as it may be expanded from time to time are subject to the regulatory jurisdiction of various federal, state and local authorities. The TCEQ exercises continuing supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to regulatory authority of the TCEQ and the United States Environmental Protection Agency ("EPA"). The provision of potable water in the District is subject to regulatory authority of the TCEQ and the TCEQ and the EPA. Withdrawal of ground water and the issuance of water well permits are subject to the regulatory authority of the Harris-Galveston Coastal Subsidence District. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System. Changes in regulatory criteria could require the District to make additional capital expenditures for system improvements in the future.

# Water Supply and Storage

Proceeds from the sale of previous District bond issues financed the construction of the District's three water supply plants, which include four wells totaling 3,785 gallons per minute of water production capacity, 1,260,000 gallons of ground storage capacity and 750,000 gallons of elevated storage capacity. The District has emergency water supply interconnects with two adjacent districts, Westador Municipal Utility District and North Forest Municipal Utility District. According to the Engineer, the District's water supply facilities are sufficient to serve approximately 5,313 equivalent single family connections which is sufficient to serve the District for the foreseeable future based upon current projected land uses.

# Surface Water Conversion

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan if the District's total water demand beginning January 2035. If the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The NHCRWA submitted its groundwater reduction plan to the Subsidence District and received approval on June 11, 2003. This plan covers the northern part of Harris County, including the area of the District, and the District should not owe any disincentive fees to the Subsidence District if the plan is carried out. Pursuant to the plan, the NHCRWA entered into a contract with the City to purchase and treat surface water for delivery to retail water utilities in the NHCRWA area, including the District. The District does not purchase any of its water from the NHCRWA and currently pays to the NHCRWA a ground water pumpage fee of \$4.70 per 1,000 gallons. Other entities that purchase surface water from the NHCRWA pay a \$5.05 per 1,000 gallons fee to the NHCRWA for the delivery of surface water. Such fees are subject to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to develop additional surface water infrastructure or to further support the Authority's regional surface water conversion effort.

### Wastewater Treatment

The District has constructed a 2,500,000 gallon per day wastewater treatment plant. According to the District's Engineer, the present capacity of the wastewater treatment plant is sufficient to serve 8,333 equivalent single family connections which is capable of serving all the remaining unimproved acreage within the District based upon current development plans.

#### Water Distribution, Wastewater Collection and Storm Drainage Facilities

The District has constructed water distribution, wastewater collection and storm drainage facilities to serve essentially all of the District. The District's Engineer has determined that the System will be sufficient to serve all remaining unimproved acreage currently within the District's boundaries, based on current projected land uses, except as otherwise described above.

# Flood Plain Acreage in District

Approximately 152 acres in the District are located in the 100 year flood plain. Approximately 41% of such flood plain acres have been developed and improved with office building and multifamily building development. The District anticipates that some additional building development, in accordance with local flood plain management regulations, may take place in the District on land that is located within the 100 year flood plain. However, no representation can be made that such building development will occur.

# **General Fund Operating History**

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon taxable property in the District, and are not payable from system revenues. The information included in the table below relating to the District's water and sewer system operations (the District's General Fund) is provided for information purposes only.

	FISCAL YEAR ENDED OCTOBER 31 (a)					
REVENUES:	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Sales tax rebates	\$858,564	\$982,651	\$840,900	\$861,727	\$825,944	
Water service	\$498,627	\$555,987	\$526,813	\$514,281	\$499,499	
Sewer service	\$404,681	\$425,020	\$417,639	\$405,103	\$405,418	
Surface water conversion	\$1,702,717	\$1,597,335	\$1,410,920	\$1,214,481	\$1,052,636	
Penalty and interest	\$35,816	\$29,596	\$11,549	\$17,524	\$16,553	
Tap connection and inspection fees	\$150,106	\$133,889	\$62,085	\$167,759	\$200,125	
Investment income	\$494,707	\$445,530	\$421,344	\$614,884	\$610,384	
Other income	-		\$2,494	\$7,483	\$6,458	
TOTAL REVENUES:	\$4,145,218	\$4,170,008	\$3,693,744	\$3,803,242	\$3,617,017	
EXPENDITURES:						
Service operations:						
Purchased services	\$1,400,664	\$1,522,736	\$1,112,732	\$1,117,568	\$1,009,951	
Regional water fee	\$379,951	\$135,619	\$276,279	\$150,329	\$91,496	
Professional fees	\$130,788	\$143,843	\$204,144	\$114,649	\$121,212	
Contracted services	\$257,156	\$239,023	\$244,886	\$228,857	\$221,359	
Utilities	\$244,383	\$264,763	\$258,164	\$329,028	\$345,036	
Repairs and maintenance	\$896,496	\$896,887	\$721,926	\$644,830	\$577,637	
Other expenditures	\$153,842	\$158,982	\$167,309	\$136,309	\$138,081	
Tap connections	\$49,900	\$46,560	\$15,015	\$77,285	\$65,370	
Capital outlay	\$661,713	\$154,169	\$190,643	\$215,468	\$116,845	
Parks and recreation	\$449,708	\$433,156	\$414,105	\$425,558	\$427,332	
TOTAL EXPENDITURES:	\$4.624,601	\$3,995,738	\$3,605,203	\$3,439,881	\$3,114,319	
EXCESS REVENUES/EXPENDITURES	(\$479,383)	\$174,271	\$88,541	\$363,361	\$502,698	
OTHER FINANCING SOURCES						
Insurance proceeds	-	\$3,27758	-	-	-	
Recovery from governmental agency	\$100,772	\$90,662	-	-	-	
Interfund transfers in	-	\$41,320	-	-	-	
Return of capital	<u>\$239,091</u>	<u>\$226,828</u>	<u>\$215,196</u>	<u>\$8,119</u>	<u>\$7,644</u>	
Total other financing sources	<u>\$339,863</u>	<u>\$686,568</u>	<u>\$215,196</u>	<u>\$8,119</u>	<u>\$7,644</u>	
EXCESS REVENUES/FINANCING SOURCES	(\$139,520)	\$860,838	\$303,737	\$371,480	\$510,342	
FUND BALANCE BEGINNING YEAR	\$5,540,364	\$4,679,526	\$4,375,789	\$4,004,309	\$3,493,967	
FUND BALANCE END OF YEAR (b)	\$5,400,844	\$5,540,364	\$4,679,526	\$4,375,789	\$4,004,309	

(a) Data is taken from District's audited financial statements. See "APPENDIX A."

<sup>(</sup>b) As of December 1, 2020, the District's General Fund had an unaudited cash and temporary investment balance of approximately \$4,770,443. The General Fund for the fiscal year ended October 31, 2020 experienced unaudited revenues of \$4,550,778 and unaudited expenditures of 3,942,132. The General Fund budget for the fiscal year ending October 31, 2021, is currently budgeting revenues of approximately \$4,302,000 and expenditures of approximately \$4,073,341. Additionally the District budgeting \$100,000 of capital expenditures to be funds from the General Fund during 2021.

# DISTRICT DEBT

2020 Taxable Valuation	\$734,042,301	(a)
Direct Debt Outstanding Bonds (as of 3/1/2021) The Bonds <b>Total</b>	\$24,970,000 <u>\$8,305,000</u> <b>\$33,275,000</b>	
Estimated Overlapping Debt	\$36,192,141	
Direct and Estimated Overlapping Debt	\$69,467,141	
Percentage of Direct Debt to: 2020 Taxable Valuation	4.53%	
Percentage of Direct and Estimated Overlapping Debt to: 2020 Taxable Valuation	9.46%	
2020 Tax Rate Per \$100 of Assessed Value Debt Service Maintenance Tax Total 2020 Tax Rate	\$0.28 <u>\$0.00</u> <b>\$0.28</b>	
Pro-Forma General Fund Cash and Investment Balance (12/1/2021) Pro-Forma Debt Service Fund Cash and Investment Balance (12/1/2021)	\$5,450,659 \$1,723,409	(b)

(a) Reflects the taxable valuation data as certified by HCAD. The figure above does not include \$17,926,436 of property value that is still in the process of being certified by HCAD. See "TAX DATA."

<sup>(</sup>b) Neither Texas law nor the District's Bond Order requires the District to maintain any particular balance in the Debt Service Fund.
### Estimated Overlapping Debt

The following table indicates the overlapping indebtedness for 2020 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.

		Overlapping Debt		
		<b>Overlapping</b>		
Taxing Jurisdiction	Outstanding Debt	<u>%</u>	<u>Amount</u>	
Spring Independent School District	\$674,715,000	4.65%	\$31,374,359	
Harris County (a)	\$1,293,922,125	0.14%	\$1,787,352	
Harris County Flood Control District	\$334,270,000	0.14%	\$469,922	
Port of Houston Authority	\$492,439,397	0.14%	\$697,269	
Harris County Hospital District	\$86,050,000	0.14%	\$122,025	
Harris County Department of Education	\$20,185,000	0.14%	\$27,772	
Lone Star College System	\$542,290,000	0.32%	\$1,713,442	
Total Estimated Overlapping Debt			\$36,192,141	
The District (b)			<u>\$33,275,000</u>	
Total Direct and Estimated Overlapping Debt			\$69,467,141	

(a) Excludes Harris County Toll Road Tax and Revenue Bonds that have been paid from toll revenues.

(b) Includes the Bonds.

### TAX DATA

#### **Tax Rate and Collections**

The following table sets forth the historical tax information collection experience of the District for the years 2016 through 2020 as of January 31, 2021 in each of the respective tax year ends noted. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

Тах	Taxable			Cumulative Tax	Ended
Year	Valuation	Tax Rate	Tax Levy	Collections	September 30
2020	\$734,042,301	\$0.28	\$2,055,318	93%	2021
2019	\$666,085,617	\$0.28	\$1,865,040	99%	2020
2018	\$596,865,762	\$0.28	\$1,671,224	100%	2019
2017	\$598,443,632	\$0.28	\$1,675,642	100%	2018
2016	\$570,531,011	\$0.28	\$1,597,487	100%	2017

#### Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2016 through 2020.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Debt Service	\$0.28	\$0.28	\$0.28	\$0.28	\$0.28
Maintenance/Operation	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Total	\$0.28	\$0.28	\$0.28	\$0.28	\$0.28

### Tax Rate Limitations

Debt Service:	Unlimited (no limit as to rate or amount)
Maintenance:	No maintenance tax has been authorized

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds, and any tax bonds which may be issued by the District in the future. To date, the District's voters have not authorized such a maintenance tax.

#### Principal Taxpayers

The list of principal taxpayers for 2020 and the other information in this table were provided by the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions.

<u>Taxpayer</u>	Type of Property	Valuation	<u>% of Total</u>
Richardson Logistics Assets LLC	Land and Improvements	\$32,252,861	4.39%
200 Hollow Tree Houston LLC	Land and Improvements	\$30,540,132	4.16%
GPI Cypress Station LP	Land and Improvements	\$30,361,756	4.14%
Westmount At Hollow Tree Parc LLC	Land and Improvements	\$28,310,656	3.86%
Apartments of Cypress Houston LLC	Land and Improvements	\$26,918,733	3.67%
905 Cypress Station Houston LLC	Land and Improvements	\$25,666,995	3.50%
TPI 1960 Retail LLC	Land and Improvements	\$25,122,777	3.42%
TMIF Copper Lodge LP	Land and Improvements	\$24,251,053	3.30%
CS 910 LP	Land and Improvements	\$22,583,444	3.08%
Sewell Houston Company LLC	Land, Improvements & Personal Property	<u>\$21,515,365</u>	<u>2.93%</u>
TOTALS		\$267,523,772	36.45%

#### 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 gross tax roll valuations and the exemptions for 2016 through 2020.

		Type of Propert	.у			
Year	Land	Improvements	Personal Property	<b>Valuations</b>	<b>Exemptions</b>	Valuations
2020	\$166,285,059	\$476,405,540	\$133,410,052	\$776,100,651	\$42,058,350	\$734,042,301 (a)
2019	\$166,821,849	\$410,236,276	\$121,986,137	\$699,044,262	\$32,958,645	\$666,085,617
2018	\$163,561,161	\$358,997,024	\$111,616,745	\$634,174,930	\$37,309,168	\$596,865,762
2017	\$157,410,555	\$357,770,053	\$103,851,781	\$619,032,389	\$20,588,757	\$598,443,632
2016	\$145,631,656	\$347,185,562	\$95,415,627	\$588,232,845	\$17,701,834	\$570,531,011

(a) Reflects data supplied by HCAD. The figure above does not include \$17,926,436 of property value that is still in the process of being certified by HCAD. See "TAX DATA."

#### Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase in taxable valuation and utilize a tax rate adequate to service the District's total debt service requirements, including the Bonds. Surplus balances in the District's Bond Fund, Construction Fund, and the Operating Fund are not reflected in these computations.

Maximum annual debt service requirements on the District's total indebtedness (2035).....\$2,132,325

\$0.31 Tax Rate on 2020 Taxable Valuation of \$734,042,301	
@ 95% collections produces\$2,161,75	5

### Estimated Overlapping Taxes

The following table sets forth all 2020 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy by entities other than political subdivisions.

Taxing Jurisdictions	2020 Tax Rate Per \$100 Assessed Valuation
Spring Independent School District	\$1.384300
Harris County (a)	\$0.604193
Lone Star College System District	\$0.107800
Harris County Emergency Service District No. 28	\$0.100000
Harris County Emergency Service District No. 11	<u>\$0.033334</u>
Estimated Total Tax Rate	\$2.229627
The District	\$0.280000
Total	\$2.509627

(a) Includes taxes levied by Harris County, Port of Houston, Harris County Hospital District, and the Harris County Flood Control District.

### TAXING PROCEDURES

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

The Texas Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District. The Texas Comptroller of Public Accounts may provide for the administration and enforcement of the uniform Standards for appraisal of property.

#### Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt certain travel trailers, certain property owned by gualified organizations engaged primarily in charitable purposes. residential homesteads of persons 65 years or older or under a disability for purposes of payment of disability insurance benefits under Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least 20% of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has granted an exemption of \$15,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's homestead. Additionally, subject to certain conditions the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead, is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

**Freeport Goods Exemptions:** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas) and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas that are destined to be forwarded outside of

Texas and that are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property that are covered by the Freeport Exemption, if, for prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. Goods-in-Transit Exemption is limited to tangible personal property acquired in, or imported into, Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more pubic warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all property for a

#### **General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the market value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For 2020, the District has granted a 20% general residential homestead exemption, the same exception granted in 2019. It is currently anticipated that the District will grant a 20% general residential homestead exemption in 2021.

### Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

The Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

### **District and Taxpayer Remedies**

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

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

### 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 "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of 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.

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

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three years to five years for agricultural use, timberland or open space land prior to the loss of the designation. According to the District's Tax Assessor/Collector, as of January 1, 2014, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

### Tax Abatement

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

#### Levy and Collection of Taxes

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

#### **Collection of Delinquent Taxes**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "DISTRICT TAX DATA – Estimated Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalties, 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 and land designated for agricultural use and six months for all other 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 (a taxpayer may redeem property within six months for commercial property, within two years for residence homesteads and land designated for agricultural use, and six months for all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings that restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – Tax Collections."

#### **Delinquent Tax Payments for Disaster Areas**

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

#### LEGAL MATTERS

### Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The District will also furnish the approving legal opinion of Marks Richardson PC, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and

court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against taxable property within the District. The opinion of Bond Counsel is expected to be reproduced on the initial Bonds over a certification of the Secretary of the Board of Directors of the District attesting that such legal opinion was dated as of the date of delivery of and payment for the Bonds and is a true and correct copy of the original opinion. Errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for the failure or refusal by the Underwriter to accept delivery of and pay for the Bonds.

In addition to serving as Bond Counsel, Marks Richardson PC also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and therefore such fees are contingent upon the sale and delivery of the Bonds.

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

#### Legal Review

In its capacity as Bond Counsel, Marks Richardson PC has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT," "TAXING PROCEDURES," and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

#### Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion.

Bond Counsel's opinion will state that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof: (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of, interest on, or disposition of the Bonds. The law upon which Bond Counsel has based its opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the District file an information report with the Internal Revenue Service. The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order, or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain "S" Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

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

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

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

#### State, Local and Foreign Taxes

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

### **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in pertinent part, that interest expense incurred or paid by a taxpayer, including a "financial institution," on indebtedness incurred or continued to acquire or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations (other than "specified private activity bonds") which are designated by a "qualified small issuer" as "qualified tax-exempt obligations."

A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank" as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by 20% as a "financial institution preference item."

The District designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. Furthermore, the District will represent that it has or will take such action as is necessary which would assure, or has or will refrain from taking such action which would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded however; the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the obligations would not be "qualified tax-exempt obligations."

#### **NO-LITIGATION CERTIFICATE**

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

#### **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws

of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

### **OFFICIAL STATEMENT**

### Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector and other sources which are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the 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. In approving this Official Statement, the District has relied upon the following consultants.

Engineer: The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "USE OF BOND PROCEEDS" "DESCRIPTION OF THE SYSTEM" and "THE DISTRICT – Description, Location and Status of Development" has been provided by A&S Engineers, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

<u>Tax Assessor/Collector</u>: The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "TAX DATA" has been provided by the HCAD and by B&A Municipal Tax Services, LLC, Tax Assessor/Collector, in reliance upon their authority as experts in the field of tax assessing and appraising.

<u>Auditors:</u> The financial statements of the District as of October 31, 2019, and for the year then ended, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See APPENDIX A.

### Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Underwriters and ending on the 91st day after the "end of the underwriting period" (as defined in SEC Rule 45c(2)-12(e)(2)), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein, in light of the circumstances when the Official Statement is delivered to a prospective purchaser, not misleading, the District will promptly notify the Underwriters of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements thereto, so that the statements in the Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when such Official Statement is delivered to a prospective purchaser, be misleading.

### **Certification as to Official Statement**

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriters a certificate, executed by the Vice President and Secretary of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in the Notice of Sale, the Preliminary Official Statement and this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, in the Notice of Sale, the Preliminary Official Statement and this Official Statement did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement was approved by the Board of Directors of CNP Municipal Utility District, as of the date shown on the cover page.

### APPENDIX A

AUDITED FINANCIAL STATEMENT OF THE DISTRICT FOR THE FISCAL YEAR ENDED OCTOBER 31, 2019

Harris County, Texas Independent Auditor's Report and Financial Statements October 31, 2019



October 31, 2019

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# Independent Auditor's Report

Board of Directors CNP Utility District Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of CNP Utility District (the District), as of and for the year ended October 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

# Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



Board of Directors CNP Utility District Page 2

### **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 October 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

### Required Supplementary Information

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

### **Other Information**

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

BKD,LIP

Houston, Texas March 9, 2020

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

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

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

# **Government-wide Financial Statements**

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

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

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

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

# **Fund Financial Statements**

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

### Governmental Funds

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

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

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

### **Notes to Financial Statements**

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

### Financial Analysis of the District as a Whole

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

# **Summary of Net Position**

	2019	2018
Current and other assets Capital assets	\$ 24,616,886 15,038,498	\$ 25,924,332 13,061,869
Total assets	 39,655,384	 38,986,201
Deferred outflows of resources	 402,426	 421,545
Total assets and deferred outflows of resources	\$ 40,057,810	\$ 39,407,746
Long-term liabilities	\$ 27,625,034	\$ 27,365,304
Other liabilities	 873,898	 891,758
Total liabilities	 28,498,932	 28,257,062
Deferred inflows of resources	 1,841,142	 1,705,971
Net position:		
Net investment in capital assets	(4,531,855)	(5,001,136)
Restricted	2,022,306	1,837,798
Unrestricted	 12,227,285	 12,608,051
Total net position	\$ 9,717,736	\$ 9,444,713

The total net position of the District increased by \$273,023, or about 3 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	2019	2018
Revenues:		
Property taxes	\$ 1,657,703	\$ 1,667,061
City of Houston rebates	856,409	967,802
Charges for services	2,606,025	2,578,342
Other revenues	1,057,497	767,817
Total revenues	6,177,634	5,981,022
Expenses:		
Services	3,581,179	3,057,110
Depreciation	822,400	785,279
Conveyance of capital assets	235,846	100,302
Parks and recreation	449,708	433,156
Debt service	815,478	1,314,782
Total expenses	5,904,611	5,690,629
Change in net position	273,023	290,393
Net position, beginning of year	9,444,713	9,154,320
Net position, end of year	\$ 9,717,736	\$ 9,444,713

# Summary of Changes in Net Position

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

The District's combined fund balances as of the end of the fiscal year ended October 31, 2019, were \$15,119,075, a decrease of \$1,187,177 from the prior year.

The general fund's fund balance decreased by \$139,520 because capital outlay and service expenditures exceeded service revenues and the return of capital on amounts owed from others.

The debt service fund's fund balance decreased by \$37,504 because bond principal and interest requirements exceeded property tax revenues.

The capital projects fund's fund balance decreased by \$1,010,153 because capital outlay expenditures exceeded interest income.

### **General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to investment income and purchased services and repairs and maintenance expenditures were lower than expected and regional water fees expenditures were greater than expected. In addition, capital outlay expenditures, return of capital and recovery from governmental entity were not budgeted. The fund balance as of October 31, 2019, was expected to be \$5,587,330 and the actual end-of-year fund balance was \$5,400,844.

### **Capital Assets and Related Debt**

### Capital Assets

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

### Capital Assets (Net of Accumulated Depreciation)

		2019	2018
Land and improvements	\$	2,353,860	\$ 1,586,153
Construction in progress		1,844,972	547,161
Water facilities		1,927,797	1,974,053
Wastewater facilities		6,696,467	6,476,971
Buildings and improvements		-	517
Parks and recreation		2,215,402	 2,477,014
Total capital assets	\$	15,038,498	\$ 13,061,869
During the current year, additions to capital assets were as foll	ows:		
Rehabilitation of the wastewater treatment plant, water well	Nos.2a	and 3,	
and ground storage tank replacement at water plant Nos.	3 and 4		\$ 1,297,811
Water and detention facilities at Copland Commercial and U	rban		
Southwest North 45 Commerce, Phase 2			919,317
Improvements at the wastewater treatment plant including d	isinfect	ion system	
and soft start equipment			 581,901
Total additions to capital assets			\$ 2,799,029

### Debt

The changes in the debt position of the District during the fiscal year ended October 31, 2019, are summarized as follows.

Long-term debt payable, beginning of year	\$ 27,365,304
Increases in long-term debt	1,155,163
Decreases in long-term debt	 (895,433)
Long-term debt payable, end of year	\$ 27,625,034

The developer of the District has constructed facilities within the boundaries of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs, plus interest, to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$2,053,840. These amounts have been recorded in the financial statements as long-term liabilities.

At October 31, 2019, the District had \$8,305,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District. In addition, the District had \$6,020,000 of park and recreation facility bonds authorized, but unissued.

The District's bonds carry an underlying rating of "A1" from Moody's Investors Service, Inc. (Moody's). The Series 2008, 2009 and 2016 refunding bonds carry a "AA" rating from Standard & Poor's (S&P) by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2015 refunding and 2018 bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Build America Mutual Assurance Co.

# **Other Relevant Factors**

### Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

### Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (SPA) with the City effective July 17, 2003. Pursuant to the terms of the SPA, the City annexed a portion of the District for limited purposes. The SPA provides for the levy of City sales tax (currently \$0.01) on qualifying retail sales in the District and payment to the District of 50 percent of the sales tax revenue collected by the City from sales tax collected from entities located within the amended area of the boundaries of the District. The District will continue to provide water, sewer and drainage services to all properties within its boundaries. The City has also agreed not to annex the District for full purposes without consent of the District during the 30-year term of the SPA.

# Statement of Net Position and Governmental Funds Balance Sheet October 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 391,683	\$ 158,930	\$ 300	\$ 550,913	\$ -	\$ 550,913
Certificates of deposit	3,600,000	720,000	-	4,320,000	-	4,320,000
Short-term investments	1,361,981	923,673	8,121,498	10,407,152	-	10,407,152
Receivables:						
Property taxes	-	1,808,524	-	1,808,524	-	1,808,524
Service accounts	472,609	-	-	472,609	-	472,609
Tax rebates	150,937	-	-	150,937	66,550	217,487
Accrued interest	48,235	8,394	-	56,629	-	56,629
Due from others	21,196	-	-	21,196	6,759,891	6,781,087
Prepaid expenditures	2,485	-	-	2,485	-	2,485
Capital assets (net of accumulated						
depreciation):						
Land and improvements	-	-	-	-	2,353,860	2,353,860
Construction in progress	-	-	-	-	1,844,972	1,844,972
Infrastructure	-	-	-	-	8,624,264	8,624,264
Parks and recreation					2,215,402	2,215,402
Total assets	6,049,126	3,619,521	8,121,798	17,790,445	21,864,939	39,655,384
Deferred Outflows of Resources						
Deferred amount on debt refundings	0	0	0	0	402,426	402,426
Total assets and deferred						
outflows of resources	\$ 6,049,126	\$ 3,619,521	\$ 8,121,798	\$17,790,445	\$22,267,365	\$40,057,810

# Statement of Net Position and Governmental Funds Balance Sheet (Continued) October 31, 2019

	-	eneral Fund	s	Debt Service Fund	F	Capital Projects Fund		Total	Adjustments	Statement of Net Position
Liabilities										
Accounts payable	\$	269,286	\$	5,343	\$	47,191	\$	321,820	\$ -	\$ 321,820
Accrued interest payable		-		-		-		-	64,126	64,126
Retainage payable		-		-		108,956		108,956	-	108,956
Customer deposits		359,621		-		-		359,621	-	359,621
Unearned tap connection fees		19,375		-		-		19,375	-	19,375
Long-term liabilities:										
Due within one year		-		-		-		-	960,000	960,000
Due after one year		-		-				-	26,665,034	26,665,034
Total liabilities		648,282		5,343		156,147		809,772	27,689,160	28,498,932
Deferred Inflows of Resources										
Deferred property tax revenues		0	1	1,861,598		0		1,861,598	(20,456)	1,841,142
Fund Balances/Net Position										
Fund balances:										
Nonspendable, prepaid expenditures		2,485		-		-		2,485	(2,485)	-
Restricted:										
Unlimited tax bonds		-	1	1,752,580		-		1,752,580	(1,752,580)	-
Water, sewer and drainage		-		-		7,965,651		7,965,651	(7,965,651)	-
Unassigned		5,398,359		-	·	-		5,398,359	(5,398,359)	
Total fund balances		5,400,844	1	1,752,580		7,965,651	1	5,119,075	(15,119,075)	0
Total liabilities, deferred inflows										
of resources and fund balances	\$ 6	5,049,126	\$ 3	3,619,521	\$	8,121,798	\$ 1	7,790,445		
Net position:										
Net investment in capital assets									(4,531,855)	(4,531,855)
Restricted for debt service									1,708,910	1,708,910
Restricted for capital projects									313,396	313,396
Unrestricted									12,227,285	12,227,285
Total net position									\$ 9,717,736	\$ 9,717,736

# Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances Year Ended October 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ -	\$ 1,650,479	\$-	\$ 1,650,479	\$ 7,224	\$ 1,657,703
Sales tax rebates	858,564	-	-	858,564	(2,155)	856,409
Water service	498,627	-	-	498,627	-	498,627
Sewer service	404,681	-	-	404,681	-	404,681
Surface water conversion	1,702,717	-	-	1,702,717	-	1,702,717
Penalty and interest	35,816	19,869	-	55,685	(5,635)	50,050
Tap connection and inspection fees	150,106	-	-	150,106	-	150,106
Investment income	494,707	43,433	218,396	756,536	-	756,536
Other income		33		33	100,772	100,805
Total revenues	4,145,218	1,713,814	218,396	6,077,428	100,206	6,177,634
Expenditures/Expenses						
Service operations:						
Purchased services	1,400,664	-	-	1,400,664	-	1,400,664
Regional water fee	379,951	-	-	379,951	-	379,951
Professional fees	130,788	5,746	-	136,534	438	136,972
Contracted services	257,156	43,100	-	300,256	-	300,256
Utilities	244,383	-	-	244,383	-	244,383
Repairs and maintenance	896,496	-	-	896,496	10,062	906,558
Other expenditures	153,842	8,603	50	162,495	-	162,495
Tap connections	49,900	-	-	49,900	-	49,900
Capital outlay	661,713	-	1,228,499	1,890,212	(1,890,212)	-
Parks and recreation	449,708	-	-	449,708	-	449,708
Depreciation	-	-	-	-	822,400	822,400
Conveyance of capital assets	-	-	-	-	235,846	235,846
Debt service:						
Principal retirement	-	910,000	-	910,000	(910,000)	-
Interest and fees		783,869		783,869	31,609	815,478
Total expenditures/expenses	4,624,601	1,751,318	1,228,549	7,604,468	(1,699,857)	5,904,611
Deficiency of Revenues Over Expenditures	(479,383)	(37,504)	(1,010,153)	(1,527,040)	1,800,063	

# Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances (Continued) Year Ended October 31, 2019

	ĺ	General Fund	Debt Service Fund	Capital Projects Fund		Total	Adj	justments	tatement of Activities
Other Financing Sources									
Recovery from governmental agency	\$	100,772	\$ -	\$ -	\$	100,772	\$	(100,772)	
Return of capital		239,091	 -	 -		239,091		(239,091)	
Total other financing sources		339,863	 0	 0		339,863		(339,863)	
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses		(139,520)	(37,504)	(1,010,153)	(	1,187,177)		1,187,177	
Change in Net Position								273,023	\$ 273,023
<b>Fund Balances/Net Position</b> Beginning of year		5,540,364	 1,790,084	 8,975,804	1	6,306,252			 9,444,713
End of year	\$	5,400,844	\$ 1,752,580	\$ 7,965,651	\$1	5,119,075	\$	0	\$ 9,717,736

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

CNP Utility District (the District) was created by Acts of the 61<sup>st</sup> Legislature of the State of Texas, Regular Session, 1969, in accordance with the Texas Water Code, Chapter 54. The Board of Directors (the Board) held its first meeting on February 24, 1970. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

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

# **Reporting Entity**

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

# Government-wide and Fund Financial Statements

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

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

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

The District presents the following major governmental funds:

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

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

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

### Fund Balances – Governmental Funds

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

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

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

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

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

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

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

### Measurement Focus and Basis of Accounting

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

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

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

### **Fund Financial Statements**

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

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

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

# Interfund Transactions

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

# **Pension Costs**

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

# Use of Estimates

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

### Investments and Investment Income

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

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

# **Property Taxes**

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

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

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

# **Capital Assets**

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

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

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

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Buildings and improvements	40
Parks and recreation facilities	20-40

# **Deferred Amount on Debt Refundings**

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

### **Debt Issuance Costs**

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

# Long-term Obligations

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

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

# Net Position/Fund Balances

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

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

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

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 15,038,498
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund	
financial statements.	20,456
Deferred amount on debt refunding for governmental activities are not	
financial resources and are not reported in the funds.	402,426

Amounts due from the regional water authority for capital contributions and from the City of Houston (the City) for sales tax rebates are not receivable in the current period and are not reported in the funds.	\$ 6,826,441
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(64,126)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	 (27,625,034)
Adjustment to fund balances to arrive at net position.	\$ (5,401,339)

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

Change in fund balances.	\$ (1,187,177)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation and noncapitalized costs in the current year.	821,466
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	910,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(566)
Governmental funds report return of capital from the regional water authority for capital contributions as other financing sources. For the statement of activities, these transactions do not have any effect on net position.	(239,091)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	 (31,609)
Change in net position of governmental activities.	\$ 273,023

# Note 2: Deposits, Investments and Investment Income

# Deposits

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

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

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

### Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

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

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At October 31, 2019, the District had the following investments and maturities.

Maturities in Years								
Turne		Less Than	4 5		C 40		_	Than
Туре	Fair Value	1	1-5		6-10		1	0
Texas CLASS	<u>\$ 10,407,152</u>	<u>\$ 10,407,152</u>	<u>\$</u>	0 \$		0	\$	0

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

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

# Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at October 31, 2019, as follows:

Carrying value:	
Deposits	\$ 4,870,913
Investments	 10,407,152
Total	\$ 15,278,065
Included in the following statement of net position captions:	
Cash	\$ 550,913
Certificates of deposit	4,320,000
Short-term investments	 10,407,152
Total	\$ 15,278,065

### Investment Income

Investment income of \$756,536 for the year ended October 31, 2019, consisted of \$389,275 of interest income on deposits and investments and \$367,261 of interest on capital contributions with North Harris County Regional Water Authority (the Authority).

### Fair Value Measurements

The District has the following recurring fair value measurements as of October 31, 2019:

• Pooled investments of \$10,407,152 are valued at fair value per share of the pool's underlying portfolio.

# Note 3: Capital Assets

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

Governmental Activities	Balances, Beginning of Year	Balances, End of Year	
Capital assets, non-depreciable:			
Land and improvements	\$ 1,586,153	\$ 767,707	\$ 2,353,860
Construction in progress	547,161	1,297,811	1,844,972
Total capital assets, non-depreciable	2,133,314	2,065,518	4,198,832
Capital assets, depreciable:			
Water production and distribution			
facilities	9,250,230	151,610	9,401,840
Wastewater collection and treatment			
facilities	14,611,281	581,901	15,193,182
Buildings	20,700	-	20,700
Parks and recreation	4,306,404		4,306,404
Total capital assets, depreciable	28,188,615	733,511	28,922,126
Less accumulated depreciation:			
Water production and distribution			
facilities	(7,276,177)	) (197,866)	(7,474,043)
Wastewater collection and treatment			
facilities	(8,134,310)	) (362,405)	(8,496,715)
Buildings	(20,183)	) (517)	(20,700)
Parks and recreation	(1,829,390)	) (261,612)	(2,091,002)
Total accumulated depreciation	(17,260,060)	(822,400)	(18,082,460)
Total governmental activities, net	\$ 13,061,869	\$ 1,976,629	\$ 15,038,498

# Note 4: Long-term Liabilities

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

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 26,840,000	\$ -	\$ 910,000	\$ 25,930,000	\$ 960,000
Less discounts on bonds	430,969	-	17,273	413,696	-
Add premiums on bonds	57,596		2,706	54,890	
	26,466,627	0	895,433	25,571,194	960,000
Due to developer	898,677	1,155,163		2,053,840	
Total governmental activities long-term					
liabilities	\$ 27,365,304	\$ 1,155,163	\$ 895,433	\$ 27,625,034	\$ 960,000

# **General Obligation Bonds**

	Series 2008	Series 2009
Amounts outstanding, October 31, 2019	\$170,000	\$60,000
Interest rates	5.00%	5.50%
Maturity dates, serially beginning/ending	April 1, 2020	April 1, 2020
Interest payment dates	April 1/October 1	April 1/October 1
Callable dates*	April 1, 2016	April 1, 2016
	Refunding Series 2015	Refunding Series 2016
Amounts outstanding, October 31, 2019	\$4,290,000	\$9,470,000
Interest rates	2.00% to 4.00%	2.00% to 3.00%
Maturity dates, serially beginning/ending	April 1, 2020/2035	April 1, 2020/2036
Interest payment dates	April 1/October 1	April 1/October 1
Callable dates*	April 1, 2022	April 1, 2022

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

	Series 2018
Amount outstanding, October 31, 2019	\$11,940,000
Interest rates	3.00% to 4.00%
Maturity dates, serially beginning/ending	April 1, 2026/2045
Interest payment dates	April 1/October 1
Callable date*	April 1, 2023

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

# Annual Debt Service Requirements

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

Year	F	Principal	Interest		Total	
2020	\$	960,000	\$	756,307	\$	1,716,307
2021		995,000		733,156		1,728,156
2022		1,055,000		712,306		1,767,306
2023		1,070,000		689,987		1,759,987
2024		1,100,000		666,819		1,766,819
2025-2029		5,250,000		2,943,060		8,193,060
2030-2034		6,165,000		2,134,828		8,299,828
2035-2039		4,660,000		1,178,479		5,838,479
2040-2044		3,800,000		514,750		4,314,750
2045	,	875,000		15,859		890,859
Total	\$	25,930,000	\$	10,345,551	\$	36,275,551

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

Bonds voted	\$ 51,255,000
Bonds sold	42,950,000
Refunding bonds voted	32,000,000
Refunding bond authorization used	9,930,624
Park and recreation bonds voted	10,000,000
Park and recreation bonds sold	3,980,000
## CNP Utility District Notes to Financial Statements October 31, 2019

#### Due to Developer

The developer of the District has constructed facilities within the boundaries of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs, plus interest, to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$2,053,840. These amounts have been recorded in the financial statements as long-term liabilities.

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

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended October 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.2800 per \$100 of assessed valuation, which resulted in a tax levy of \$1,841,142 on the taxable valuation of \$657,550,971 for the 2019 tax year. The principal and interest requirements to be paid from tax revenues and available resources are \$1,716,307.

### Note 6: Strategic Partnership Agreement

The District entered into a Strategic Partnership Agreement (SPA) with the City effective July 17, 2003. Pursuant to the terms of the SPA, the City annexed a portion of the District for limited purposes. The SPA provides for the levy of City sales tax (currently \$0.01) on qualifying retail sales in the District and payment to the District of 50 percent of the sales tax revenue collected by the City from sales tax collected from entities located within the amended area of the boundaries of the District. The District will continue to provide water, sewer and drainage services to all properties within its boundaries. The City has also agreed not to annex the District for full purposes without consent of the District during the 30-year term of the SPA. During the current year, the District recorded \$856,409 in revenues related to the SPA.

### Note 7: Regional Water Authority

The District is within the boundaries of the Authority, which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of October 31, 2019, the Authority was billing the District \$3.85 per 1,000 gallons of water pumped from its wells and \$4.30 per 1,000 gallons of surface water received. These amounts are subject to future increases.

In 2003, the District entered into a Capital Contribution Agreement (the 2003 Agreement) with the Authority. The Agreement requires the District to make a capital contribution to the Authority of \$2,577,232 and will receive payment through credits for District pumpage fees and water payments

## CNP Utility District Notes to Financial Statements October 31, 2019

as they become due each year. In addition, any amounts owed to the District that remain after the credits will be paid to the District. These payments accrue interest at 5.0575 percent per year and will be repaid with interest-only payments from 2004 through 2009 and principal and interest payments from 2010 through 2033.

In 2005, the District entered into a second Capital Contribution Agreement (the 2005 Agreement) with the Authority. The Agreement requires the District to make a capital contribution to the Authority of \$1,697,070 and will receive payment through credits for District pumpage fees and water payments as they become due each year. In addition, any amounts owed to the District that remain after the credits will be paid to the District. These repayments accrue interest at 4.8087 percent per year and will be repaid with interest-only payments from 2005 through 2009 and principal and interest payments from 2010 through 2035.

In 2008, the District entered into a third Capital Contribution Agreement (the 2008 Agreement) with the Authority. The Agreement requires the District to make a capital contribution to the Authority of \$3,620,110, of which \$3,100,000 was paid in September 2008 and the remainder was paid in July 2009. The District will receive payment through credits for District pumpage fees and water payments as they become due each year. In addition, any amounts owed to the District that remain after the credits will be paid to the District. These repayments accrue interest at 5.3755 percent per year and will be repaid with interest-only payments from 2009 through 2013 and principal and interest payments from 2014 through 2038.

In 2011, the District entered into a Chloramination Credit Agreement (the Chloramination Credit Agreement) with the Authority for reimbursement of chloramine conversion costs. The Agreement allows for reimbursement of \$498,106 in chloramine system costs. The District will receive payment through credits for District pumpage fees and water payments as they become due each year. These repayments accrue interest at 6.00 percent per year and will be repaid with principal and interest payments from 2011 through 2041.

Year	Amount	
2020	\$ 606,35	52
2021	606,35	52
2022	606,35	52
2023	606,35	52
2024	606,35	52
2025-2029	3,031,75	9
2030-2034	2,875,24	2
2035-2039	1,426,82	4
2040-2041	45,23	3
	10,410,81	8
Less amount representing interest	(3,650,92	7)
	\$ 6,759,89	1

At October 31, 2019, the combined repayments outstanding are as follows:

V - - -

## CNP Utility District Notes to Financial Statements October 31, 2019

These amounts have not been recorded in the fund financial statements and will be recorded as a return of capital upon repayment.

#### Note 8: Risk Management

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

#### Note 9: Hurricane Harvey

The Houston area sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District sustained material damage at its facilities, including the lift station and the wastewater treatment plant ultra violet system, and estimated damages incurred to be approximately \$420,000. The District filed a claim with the Federal Emergency Management Agency (FEMA) and an insurance claim with their insurance provider, and during the prior year, recorded \$90,662 in recovery from FEMA and \$327,758 in insurance proceeds. In the current year, the District received an additional \$100,772 in recovery from FEMA.

**Required Supplementary Information** 

## **CNP Utility District** Budgetary Comparison Schedule – General Fund Year Ended October 31, 2019

	Original Budget			Actual	Variance Favorable (Unfavorable)		
Revenues							
Sales tax rebates		00,000	\$	858,564	\$	(41,436)	
Water service		40,000		498,627		(41,373)	
Sewer service	4	15,000		404,681		(10,319)	
Surface water conversion	1,6	63,000		1,702,717		39,717	
Penalty and interest		14,000		35,816		21,816	
Tap connection and inspection fees		30,000		150,106		120,106	
Investment income	6	45,766		494,707		(151,059)	
Other income		5,000		-		(5,000)	
Total revenues	4,2	12,766		4,145,218		(67,548)	
Expenditures							
Service operations:							
Purchased services	1,6	22,500		1,400,664		221,836	
Regional water fee	1	58,000		379,951		(221,951)	
Professional fees	1	65,000		130,788		34,212	
Contracted services	24	46,100		257,156		(11,056)	
Utilities	2	70,000		244,383		25,617	
Repairs and maintenance	1,0	49,800		896,496		153,304	
Other expenditures	1	71,700		153,842		17,858	
Tap connections		-		49,900		(49,900)	
Capital outlay		-		661,713		(661,713)	
Parks and recreation	4	82,700		449,708		32,992	
Total expenditures	4,1	65,800		4,624,601		(458,801)	
Excess (Deficiency) of Revenues Over							
Expenditures		46,966		(479,383)		(526,349)	
Other Financing Sources							
Recovery from governmental agency		-		100,772		100,772	
Return of capital				239,091		239,091	
Total other financing sources		0		339,863		339,863	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and							
Other Financing Uses		46,966		(139,520)		(186,486)	
Fund Balance, Beginning of Year	5,5	40,364		5,540,364		-	
Fund Balance, End of Year	\$ 5,5	87,330	\$	5,400,844	\$	(186,486)	

## **CNP Utility District** Notes to Required Supplementary Information October 31, 2019

#### **Budgets and Budgetary Accounting**

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

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

**Other Information** 

## **CNP Utility District** Other Schedules Included Within This Report October 31, 2019

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

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

## **CNP Utility District** Schedule of Services and Rates Year Ended October 31, 2019

#### 1. Services provided by the District:

X Retail Water	Wholesale Water	X Drainage					
X Retail Wastewater	Wholesale Wastewater	Irrigation					
X 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							

#### 2. Retail service providers

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

		Minimum Minimum Charge Usage		Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum		Usage Levels		
Water:	\$	3.50	5,000	N	\$	1.00	<u> </u>	10,000	
					\$	1.50	10,001 to	20,000	
					\$	2.00	to	No Limit	
Wastewater:	\$	5.50	1	Y					
Regional water fee:	\$	4.30	1	N	\$	4.30	<u> </u>	No Limit	
Does the District employ winter	er avera	ging for w	vastewater usage?				Yes	No	
Total charges per 10,000 gallor	is usage	e (includir	ng fees):	Wa	ter <u></u> \$	51.50	Wastewater	\$ 5.50	

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	_	_	x1.0	-
≤ 3/4"	41	33	x1.0	33
1"	44	40	x2.5	100
1 1/2"	33	32	x5.0	160
2"	143	141	x8.0	1,128
3"	8	8	x15.0	120
4"	11	11	x25.0	275
6"	9	9	x50.0	450
8"	5	5	x80.0	400
10"		-	x115.0	
Total water	294	279		2,666
Total wastewater	199	190	x1.0	190

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

Gallons pumped into the system: Gallons billed to customers:

Water accountability ratio (gallons billed/gallons pumped):

\*"ESFC" means equivalent single-family connections

436,645

416,402

95.36%

## **CNP Utility District** Schedule of General Fund Expenditures Year Ended October 31, 2019

Personnel (including benefits)		\$ -
Professional Fees Auditing Legal Engineering Financial advisor	\$ 21,600 40,669 68,519 -	130,788
<b>Purchased Services for Resale</b> Bulk water and wastewater service purchases		1,400,664
Regional Water Fee		379,951
Contracted Services Bookkeeping General manager Appraisal district Tax collector Security	25,181	
Other contracted services	 231,975	257,156
Utilities		244,383
Repairs and Maintenance		896,496
Administrative Expenditures Directors' fees Office supplies Insurance Other administrative expenditures	7,200 2,941 62,876 80,825	153,842
Capital Outlay Capitalized assets Expenditures not capitalized	651,651 10,062	661,713
Tap Connection Expenditures		49,900
Solid Waste Disposal		-
Fire Fighting		-
Parks and Recreation		449,708
Other Expenditures		 -
Total expenditures		\$ 4,624,601

## **CNP Utility District** Schedule of Temporary Investments October 31, 2019

	Interest Rate	Maturity Date	Face Amount		In	crued terest eivable
General Fund						
Certificates of Deposit						
No. 91300011892549	2.75%	07/15/20	\$	240,000	\$	1,935
No. 16774797988	2.50%	07/22/20		240,000		1,644
No. 608	2.75%	12/02/19		240,000		6,021
No. 83191023	2.65%	01/23/20		240,000		4,896
No. 71127419	2.15%	08/28/20		240,000		891
No. 11829	2.58%	05/31/20		240,000		2,562
No. 440004202	2.60%	11/12/19		240,000		6,018
No. 80001949	2.71%	02/11/20		240,000		4,669
No. 4189289	2.00%	10/17/20		240,000		184
No. 0276932737	2.65%	04/24/20		240,000		3,293
No. 2000000061	2.65%	03/08/20		240,000		4,130
No. 13548	2.45%	09/11/20		240,000		789
No. 04600018502	2.65%	03/07/20		240,000		4,147
No. 6000013737	2.60%	08/09/20		240,000		1,402
No. 7755	2.45%	11/13/19		240,000		5,654
Texas CLASS	2.02%	Demand		1,361,981		_
				4,961,981		48,235
Debt Service Fund						
Certificates of Deposit						
No. 1002873023	2.60%	03/20/20		240,000		3,847
No. 66000582	2.10%	09/09/20		240,000		718
No. 9009004237	2.60%	03/20/20		240,000		3,829
Texas CLASS	2.02%	Demand		923,673		
				1,643,673		8,394
Capital Projects Fund						
Texas CLASS	2.02%	Demand		8,121,498		0
Totals			\$	14,727,152	\$	56,629

## **CNP Utility District** Analysis of Taxes Levied and Receivable Year Ended October 31, 2019

	 Debt Service Taxes
<b>Receivable, Beginning of Year</b> Additions and corrections to prior years' taxes	\$ 1,717,937 (48,268)
Adjusted receivable, beginning of year	 1,669,669
2019 Original Tax Levy Additions and corrections	 1,783,012 58,130
Adjusted tax levy	 1,841,142
Total to be accounted for	3,510,811
Tax collections: Current year Prior years	 (53,074) (1,649,213)
Receivable, end of year	\$ 1,808,524
Receivable, by Years 2019 2018 2017 2016 2015 2014 2013 2012 2011 2010 2009	\$ 1,788,068 6,793 5,190 3,278 1,411 983 972 992 418 330 89
Receivable, end of year	\$ 1,808,524

## **CNP Utility District** Analysis of Taxes Levied and Receivable (Continued) Year Ended October 31, 2019

	2019	2018	2017	2016
Property Valuations				
Land	\$ 165,234,113	\$ 163,421,574	\$ 160,374,831	\$ 134,504,091
Improvements	418,544,949	381,226,125	380,157,151	348,172,715
Personal property	106,502,781	101,529,102	94,112,699	85,180,604
Exemptions	(32,730,872)	(36,901,626)	(18,888,236)	(17,228,693)
Total property valuations	\$ 657,550,971	\$ 609,275,175	\$ 615,756,445	\$ 550,628,717
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.2800	\$ 0.2800	\$ 0.2800	\$ 0.2800
Tax Levy	\$ 1,841,142	\$ 1,705,971	\$ 1,724,118	\$ 1,541,760
	1 7- 7	, <u>, , , , , , , , , , , , , , , , , , </u>	1 7 7 -	1 7- 7
Percent of Taxes Collected to				
Taxes Levied*	3%	99%	99%	99%

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

	Series 2008						
Due During Fiscal Years Ending October 31		Principal Due April 1		rest Due pril 1, tober 1	Total		
2020	\$	170,000	\$	4,250	\$	174,250	

	Series 2009						
Due During Fiscal Years Ending October 31		Principal Due April 1		rest Due pril 1, tober 1	Total		
2020	\$	60,000	\$	1,650	\$	61,650	

		Refunding Series 2015						
Due During Fiscal Years Ending October 31		Principal Due April 1		Interest Due April 1, October 1		Total		
2020	\$	510,000	\$	105,163	\$	615,163		
2021		535,000		94,712		629,712		
2022		560,000		83,412		643,412		
2023		575,000		70,993		645,993		
2024		600,000		57,775		657,775		
2025		625,000		43,212		668,212		
2026		70,000		34,000		104,000		
2027		75,000		31,100		106,100		
2028		75,000		28,100		103,100		
2029		80,000		25,000		105,000		
2030		85,000		21,700		106,700		
2031		95,000		18,100		113,100		
2032		95,000		14,300		109,300		
2033		100,000		10,400		110,400		
2034		105,000		6,300		111,300		
2035		105,000		2,100		107,100		
T	otals \$	4,290,000	\$	646,367	\$	4,936,367		

		Refunding Series 2016				
Due During Fiscal Years Ending October 31		Principal Due April 1	Interest Due April 1, October 1	Total		
2020	\$	220,000	\$ 232,550	\$ 452,550		
2021		460,000	225,750	685,750		
2022		495,000	216,200	711,200		
2023		495,000	206,300	701,300		
2024		500,000	196,350	696,350		
2025		505,000	186,300	691,300		
2026		540,000	175,850	715,850		
2027		540,000	164,375	704,375		
2028		575,000	151,831	726,831		
2029		575,000	138,175	713,175		
2030		585,000	123,675	708,675		
2031		615,000	107,906	722,906		
2032		600,000	91,200	691,200		
2033		660,000	73,050	733,050		
2034		675,000	53,025	728,025		
2035		710,000	32,250	742,250		
2036		720,000	10,800	730,800		
Т	otals <u></u> \$	9,470,000	\$ 2,385,587	\$ 11,855,587		

			Series 2018	
Due During Fiscal Years Ending October 31		Principal Due April 1	Interest Due April 1, October 1	Total
2020	\$	_	\$ 412,694	\$ 412,694
2021		-	412,694	412,694
2022		-	412,694	412,694
2023		-	412,694	412,694
2024		-	412,694	412,694
2025		-	412,694	412,694
2026		290,000	406,893	696,893
2027		425,000	394,718	819,718
2028		425,000	381,968	806,968
2029		450,000	368,844	818,844
2030		475,000	354,969	829,969
2031		500,000	340,031	840,031
2032		500,000	324,094	824,094
2033		525,000	307,109	832,109
2034		550,000	288,969	838,969
2035		575,000	269,625	844,625
2036		600,000	249,063	849,063
2037		625,000	227,625	852,625
2038		650,000	205,313	855,313
2039		675,000	181,703	856,703
2040		700,000	156,781	856,781
2041		725,000	130,953	855,953
2042		750,000	104,219	854,219
2043		800,000	76,125	876,125
2044		825,000	46,672	871,672
2045		875,000	15,859	890,859
1	Fotals _\$	11,940,000	\$ 7,307,697	\$ 19,247,697

		Annual Requirements For All Series					
Due During Fiscal Years Ending October 31		Total Principal Due	Total Interest Due	Total Principal and Interest Due			
2020		\$ 960,000	\$ 756,307	\$ 1,716,307			
2021		995,000	733,156	1,728,156			
2022		1,055,000	712,306	1,767,306			
2023		1,070,000	689,987	1,759,987			
2024		1,100,000	666,819	1,766,819			
2025		1,130,000	642,206	1,772,206			
2026		900,000	616,743	1,516,743			
2027		1,040,000	590,193	1,630,193			
2028		1,075,000	561,899	1,636,899			
2029		1,105,000	532,019	1,637,019			
2030		1,145,000	500,344	1,645,344			
2031		1,210,000	466,037	1,676,037			
2032		1,195,000	429,594	1,624,594			
2033		1,285,000	390,559	1,675,559			
2034		1,330,000	348,294	1,678,294			
2035		1,390,000	303,975	1,693,975			
2036		1,320,000	259,863	1,579,863			
2037		625,000	227,625	852,625			
2038		650,000	205,313	855,313			
2039		675,000	181,703	856,703			
2040		700,000	156,781	856,781			
2041		725,000	130,953	855,953			
2042		750,000	104,219	854,219			
2043		800,000	76,125	876,125			
2044		825,000	46,672	871,672			
2045		875,000	15,859	890,859			
	Totals	\$ 25,930,000	\$ 10,345,551	\$ 36,275,551			

## **CNP Utility District** Changes in Long-term Bonded Debt Year Ended October 31, 2019

				Bond
	Serie	es 2008	Seri	ies 2009
Interest rates	5.	00%	5	5.50%
Dates interest payable	-	oril 1/ ober 1		april 1/ tober 1
Maturity dates	-	pril 1, 020	April 1, 2020	
Bonds outstanding, beginning of current year	\$	330,000	\$	115,000
Retirements, principal		160,000		55,000
Bonds outstanding, end of current year	\$	170,000	\$	60,000
Interest paid during current year	\$	12,500	\$	4,813

Paying agent's name and address:

Series 2008	-	Wells Fargo Bank Texas, N.A., Houston, Texas
Series 2009	-	Wells Fargo Bank Texas, N.A., Houston, Texas
Series 2015	-	Amegy Bank N.A., Houston, Texas
Series 2016	-	Amegy Bank N.A., Houston, Texas
Series 2018	-	Amegy Bank N.A., Houston, Texas

Bond authority:	<u> </u>	ax Bonds	Park Bonds				efunding Bonds
Amount authorized by voters	\$	51,255,000	\$	10,000,000	\$	32,000,000	
Amount issued	\$	42,950,000	\$	3,980,000	\$	9,930,624	
Remaining to be issued	\$	8,305,000	\$	6,020,000	\$	22,069,376	
Debt service fund cash and temporary investn	\$	1,802,603					
Average annual debt service payment (princip	\$	1,395,214					

lssues

Refunding Series 2015		•		Series 2018		Totals
2.00	2.00% to 4.00% 2.00% to 3.00%		3.00% to 4.00%			
(	April 1/April 1/April 1/October 1October 1October 1					
2	April 1, 2020/2035		April 1, 020/2036	April 1, 2026/2045		
\$	4,790,000	\$	9,665,000	\$	11,940,000	\$ 26,840,000
	500,000		195,000			 910,000
\$	4,290,000	\$	9,470,000	\$	11,940,000	\$ 25,930,000
\$	115,263	\$	236,700	\$	412,694	\$ 781,970

## Comparative Schedule of Revenues and Expenditures – General Fund Five Years Ended October 31,

	Amounts					
	2019	2018	2017	2016	2015	
General Fund						
Revenues						
Sales tax rebates	\$ 858,564	\$ 982,651	\$ 840,900	\$ 861,727	\$ 825,944	
Water service	498,627	555,987	526,813	514,281	499,499	
Sewer service	404,681	425,020	417,639	405,103	405,418	
Surface water conversion	1,702,717	1,597,335	1,410,920	1,214,481	1,052,636	
Penalty and interest	35,816	29,596	11,549	17,524	16,553	
Tap connection and inspection fees	150,106	133,889	62,085	167,759	200,125	
Investment income	494,707	445,530	421,344	614,884	610,384	
Other income			2,494	7,483	6,458	
Total revenues	4,145,218	4,170,008	3,693,744	3,803,242	3,617,017	
Expenditures						
Service operations:						
Purchased services	1,400,664	1,522,736	1,112,732	1,117,568	1,009,951	
Regional water fee	379,951	135,619	276,279	150,329	91,496	
Professional fees	130,788	143,843	204,144	114,649	121,212	
Contracted services	257,156	239,023	244,886	228,857	221,359	
Utilities	244,383	264,763	258,164	329,028	345,036	
Repairs and maintenance	896,496	896,887	721,926	644,830	577,637	
Other expenditures	153,842	158,982	167,309	136,309	138,081	
Tap connections	49,900	46,560	15,015	77,285	65,370	
Capital outlay	661,713	154,169	190,643	215,468	116,845	
Parks and recreation	449,708	433,156	414,105	425,558	427,332	
Total expenditures	4,624,601	3,995,738	3,605,203	3,439,881	3,114,319	
Excess (Deficiency) of Revenues						
Over Expenditures	(479,383)	174,270	88,541	363,361	502,698	
Other Financing Sources						
Insurance proceeds	-	327,758	-	-	-	
Recovery from governmental agency	100,772	90,662	-	-	-	
Interfund transfers in	-	41,320	-	-	-	
Return of capital	239,091	226,828	215,196	8,119	7,644	
Total other financing sources	339,863	686,568	215,196	8,119	7,644	
Excess (Deficiency) of Revenues and Other						
Financing Sources Over Expenditures						
and Other Financing Uses	(139,520)	860,838	303,737	371,480	510,342	
Fund Balance, Beginning of Year	5,540,364	4,679,526	4,375,789	4,004,309	3,493,967	
Fund Balance, End of Year	\$ 5,400,844	\$ 5,540,364	\$ 4,679,526	\$ 4,375,789	\$ 4,004,309	
Total Active Retail Water Connections	279	276	271	267	257	
Total Active Retail Wastewater Connections	190	189	186	183	171	

2019	2018	2017	2016	2015
20.7 %	23.6 %	22.8 %	22.7 %	22.8
12.0	13.3	14.2	13.5	13.8
9.8	10.2	11.3	10.7	11.2
41.1	38.3	38.2	31.9	29.1
0.9	0.7	0.3	0.5	0.5
3.6	3.2	1.7	4.4	5.5
11.9	10.7	11.4	16.1	16.9
		0.1	0.2	0.2
100.0	100.0	100.0	100.0	100.0
33.8	36.5	30.1	29.4	27.9
9.2	3.3	7.5	4.0	2.5
3.2	3.4	5.5	3.0	3.4
6.2	5.7	6.6	6.0	6.1
5.9	6.4	7.0	8.7	9.5
21.6	21.5	19.6	17.0	16.0
3.7	3.8	4.5	3.6	3.8
1.2	1.1	0.4	2.0	1.8
15.9	3.7	5.2	5.6	3.2
10.9	10.4	11.2	11.2	11.8
111.6	95.8	97.6	90.5	86.0
(11.6) %	4.2 %	2.4 %	9.5 %	14.0

### Comparative Schedule of Revenues and Expenditures – Debt Service Fund Five Years Ended October 31,

	Amounts					
	2019	2018	2017	2016	2015	
Debt Service Fund						
Revenues						
Property taxes	\$ 1,650,479	\$ 1,666,245	\$ 1,616,485	\$ 1,538,360	\$ 1,561,195	
Penalty and interest	19,869	31,550	43,469	29,259	137	
Investment income	43,433	30,882	14,539	6,459	3,877	
Other income	33	20	18	13	9	
Total revenues	1,713,814	1,728,697	1,674,511	1,574,091	1,565,218	
Expenditures						
Current:						
Professional fees	5,746	9,897	7,239	2,285	3,846	
Contracted services	43,100	41,941	40,578	40,425	40,857	
Other expenditures	8,603	6,008	6,543	5,925	6,777	
Debt service:						
Principal retirement	910,000	1,035,000	1,070,000	795,000	775,000	
Interest and fees	783,869	580,924	420,973	500,359	801,115	
Debt defeasance	-	-	-	9,000	31,000	
Debt issuance costs				333,186	224,703	
Total expenditures	1,751,318	1,673,770	1,545,333	1,686,180	1,883,298	
Excess (Deficiency) of Revenues Over						
Expenditures	(37,504)	54,927	129,178	(112,089)	(318,080)	
Other Financing Sources (Uses)						
Payments to escrow agent	-	-	-	(9,582,199)	(6,152,878)	
General obligation bonds issued	-	-	-	9,995,000	6,315,000	
Discount on debt issued	-	-	-	(77,222)	-	
Premium on debt issued					65,221	
Total other financing sources	0	0	0	335,579	227,343	
Excess (Deficiency) of Revenues and Other						
Financing Sources Over Expenditures						
and Other Financing Uses	(37,504)	54,927	129,178	223,490	(90,737)	
Fund Balance, Beginning of Year	1,790,084	1,735,157	1,605,979	1,382,489	1,473,226	
Fund Balance, End of Year	\$ 1,752,580	\$ 1,790,084	\$ 1,735,157	\$ 1,605,979	\$ 1,382,489	

2019	2018	2017	2016	2015
96.3 %	96.4 %	96.5 %	97.7 %	99.7
1.2	1.8	2.6	1.9	0.0
2.5	1.8	0.9	0.4	0.3
0.0	0.0	0.0	0.0	0.0
100.0	100.0	100.0	100.0	100.0
0.3	0.6	0.4	0.2	0.2
2.5	2.4	2.4	2.6	2.6
0.5	0.4	0.4	0.4	0.4
53.1	59.8	63.9	50.5	49.5
45.8	33.6	25.2	31.8	51.2
-	-	-	0.5	2.0
			21.1	14.4
102.2	96.8	92.3	107.1	120.3
(2.2) %	3.2 %	7.7 %	(7.1) %	(20.3)

## **CNP Utility District** Board Members, Key Personnel and Consultants Year Ended October 31, 2019

Complete District mailing address:	CNP Utility District c/o Marks Richardson PC 3700 Buffalo Speedway, Suite 830 Houston, Texas 77098			
District business telephone number:	713.942.9922			
Submission date of the most recent D (TWC Sections 36.054 and 49.054)	August	: 13, 2019		
Limit on fees of office that a director	may receive during a fiscal year:		\$	7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
		1000	Reinibarbeinents	
	Elected			
	11/16-			
Renee Granberry	11/20	\$ 1,800	\$ 0	President
	Elected			
	11/18-			Vice
Gregory Koch	11/22	1,350	0	President
	Elected			
	11/16-			
Keith Brown	11/20	1,500	0	Secretary
	Elected			
	11/18-			Assistant
Ed Hudson	11/22	1,800	0	Secretary
	Appointed			
	07/19-			
Kirk O'Neal	11/20	300	0	Director
	Elected			
	11/16-			
Candace Smith	06/19	450	0	Resigned

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

## **CNP Utility District** Board Members, Key Personnel and Consultants (Continued) Year Ended October 31, 2019

		Fees and Expense	
Consultants	Date Hired	Reimbursements	Title
A&S Engineers, Inc.	12/17/07	\$ 295,007	Engineer
			Tax Assessor/
B&A Municipal Tax Service	07/28/11	54,633	Collector
BKD, LLP	09/05/85	21,600	Auditor
The GMS Group, L.L.C.	12/14/95	900	Financial Advisor
The Girls Group, L.L.C.	12/11/25	200	11011501
	Legislative		
Harris County Appraisal District	Action	12,702	Appraiser
Marks Richardson PC	01/16/03	48,463	General Counsel
Marks Renardson FC	01/10/03	40,403	Counser
Municipal Accounts & Consulting, L.P.	04/22/03	28,127	Bookkeeper
Municipal District Services	02/01/08	854,967	Operator
Ted A. Cox, P.C.	09/21/95	5,746	Delinquent Tax Attorney
Investment Officers			
Mark M. Burton and Ghia Lewis	04/22/03	N/A	Bookkeepers

#### APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



## MUNICIPAL BOND INSURANCE POLICY

**ISSUER:** 

BONDS: \$ in aggregate principal amount of



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

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

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

Page 2 of 2 Policy No. -N

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

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

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

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

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



ASSURED GUARANTY MUNICIPAL CORP.

Ву \_

Authorized Officer

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

Form 500NY (5/90)