

## OFFICIAL STATEMENT DATED FEBRUARY 11, 2021

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

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

**NEW ISSUE - Book-Entry Only**

**Ratings: S&P Global Ratings (BAM Insured)... "AA" (stable outlook)  
See "BOND INSURANCE" and "RATING" herein**

### **\$9,500,000 HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 561 (A Political Subdivision of the State of Texas located within Harris County, Texas) UNLIMITED TAX BONDS, SERIES 2021**

**Dated: March 1, 2021**

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

Principal of the above bonds (the "Bonds") is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., currently in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from March 1, 2021, and is payable on September 1, 2021, and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

The Bonds, including the Term Bonds (defined herein), maturing on and after September 1, 2027, are subject to redemption prior to maturity at the option of Harris County Municipal Utility District No. 561 (the "District"), as a whole or in part, on September 1, 2026, or any date thereafter, at a price equal to the principal amount 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 at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM" or the "Insurer").



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**See Maturity and Pricing Schedule on the inside cover**

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The Bonds constitute the initial series of bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer and storm drainage system (the "System") to serve the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. SEE "RISK FACTORS." Voters in the District have authorized a total of \$161,505,000 principal amount of bonds for the purpose of acquiring and constructing the System and refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads and refunding of such bonds. Following the issuance of the Bonds, \$152,005,000 principal amount of bonds for the purpose of acquiring and constructing the System and refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads and refunding of such bonds authorized by the District's voters will remain unissued. See "THE BONDS – Issuance of Additional Debt."

The Bonds, when issued, constitute valid and binding obligations of the District, and are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment." Neither the State of Texas, the City of La Porte, Texas, Harris County, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas, the City of La Porte, Texas, or Harris County, Texas is pledged to the payment of the principal of and interest on the Bonds.

The Bonds are offered subject to prior sale, when, as and if issued by the District, subject among other things to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds is expected on or about March 16, 2021, at The Bank of New York Mellon Trust Company, N.A., Dallas Texas.

## MATURITY SCHEDULE

CUSIP Prefix (a): 41429V

\$4,350,000 Serial Bonds

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (b)</u>	<u>CUSIP Suffix (a)</u>
2023	\$ 175,000	4.50%	0.30%	AA6
2024	185,000	4.50	0.40	AB4
2025	190,000	4.25	0.50	AC2
2026	200,000	4.00	0.60	AD0
2027 (c)	210,000	2.00	0.70	AE8
2028 (c)	220,000	2.00	0.85	AF5
2029 (c)	230,000	2.00	1.00	AG3
2030 (c)	240,000	2.00	1.15	AH1
2031 (c)	250,000	2.00	1.30	AJ7
2032 (c)	260,000	2.00	1.40	AK4
2033 (c)	275,000	2.00	1.50	AL2
2034 (c)	285,000	2.00	1.55	AM0
2035 (c)	300,000	2.00	1.60	AN8
2036 (c)	310,000	2.00	1.65	AP3
2037 (c)	325,000	2.00	1.70	AQ1
2038 (c)	340,000	2.00	1.75	AR9
2039 (c)	355,000	2.00	1.80	AS7

**\$2,500,000 Term Bonds, Due September 1, 2045(c)(d), CUSIP Suffix AY4 (a), Interest Rate 2.00% (Yield 2.013%)(b)**  
**\$2,650,000 Term Bonds, Due September 1, 2050(c)(d), CUSIP Suffix BD9 (a), Interest Rate 2.00% (Yield 2.045%)(b)**

- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor (as defined herein), nor the Underwriter (as defined herein) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed. Accrued interest from March 1, 2021, is to be added to the price.
- (c) Subject to optional redemption as described on front cover.
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement 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, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Financial Advisor.

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

Neither the District nor the Underwriter makes any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will," or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions, and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "RISK FACTORS" in this Official Statement, as well as additional factors beyond the District's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

Build America Mutual Assurance Company ("BAM" or the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM supplied by BAM and presented under the heading "BOND INSURANCE" and "APPENDIX C - SPECIMEN OF 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 resulting in the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the “Underwriter” or the “Initial Purchaser”) to purchase the Bonds bearing the interest rates shown under “MATURITY SCHEDULE” at a price of 97.004184% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.197562%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

### **Marketability**

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

The 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 price, 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 PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### **Securities Laws**

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

## **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com). BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

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

### *Capitalization of BAM*

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

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

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

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

### *Additional Information Available from BAM*

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



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

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

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

### **BOND INSURANCE RISK FACTORS**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments.

In the event the 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 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 Insurer and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "BOND INSURANCE" and "RATING" herein. As is stated in this Official Statement under the caption "NO MATERIAL ADVERSE CHANGE," the rating of the Insurer's creditworthiness by any rating agency does not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriters of their obligations to take up and pay for the Bonds.

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

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

## **RATING**

The Bonds have received an insured rating of “AA” (stable outlook) from S&P Global Ratings (“S&P”), a business unit of Standard & Poor’s Financial Services LLC, based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The Bonds do not currently have an underlying credit rating.

An explanation of the significance of the foregoing rating may only be obtained from S&P. The foregoing rating expresses only the view of S&P at the time the rating is given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the rating of S&P.

**OFFICIAL STATEMENT SUMMARY**

The following summary of certain information contained herein is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

**THE BONDS**

The Issuer .....	Harris County Municipal Utility District No. 561 (the “District”) is a political subdivision of the State of Texas located within Harris County, Texas. See “THE DISTRICT - Authority.”
Description .....	\$9,500,000 Unlimited Tax Bonds, Series 2021, are dated March 1, 2021. Interest on the Bonds accrues, at the rates shown on the inside cover hereof, from March 1, 2021, and is payable on September 1, 2021, and on each March 1 and September 1 thereafter until maturity or prior redemption. An aggregate of \$4,350,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2023 through 2039, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. An aggregate of \$5,150,000 of the Bonds are issued as term bonds (collectively, the “Term Bonds”), maturing on September 1 in each of the years 2045 and 2050, in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. The Bonds, including the Term Bonds, maturing on and after September 1, 2027, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2026, or on any date thereafter at the option of the District. In addition to being subject to optional redemption, the Term Bonds are also subject to mandatory sinking fund redemption on September 1 in the years and in the amounts as is more completely described in this Official Statement under the caption “THE BONDS - Redemption Provisions - Mandatory Redemption.” See “THE BONDS.”
Book-Entry-Only System .....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (defined herein), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

Source of Payment .....

Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS - Source of Payment,” “TAX DATA - Tax Rate Calculations,” and “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments.”

Use of Proceeds .....

Proceeds of the sale of the Bonds will be used by the District to pay (a) the cost of acquisition or construction of water, wastewater and drainage facilities serving the Domain Morgan’s Landing Apartments and Morgan’s Landing Phase 1, Section 1; clearing and grubbing and a detention pond to serve Morgan’s Landing; and land acquisition costs; and (b) the principal of and accrued interest on the District’s \$3,565,000 Bond Anticipation Note, Series 2020 (the “BAN”), the proceeds of the sale of which the District utilized to interim finance a portion of the cost of the aforementioned items. The District will also use the proceeds of the Bonds to pay for bond and BAN issuance costs, legal fees, fiscal agent’s fees, fees to the Texas Commission on Environmental Quality (the “TCEQ”) and the Attorney General of Texas, certain costs associated with the creation and operation of the District, and engineering fees relating to the foregoing projects. See “THE BONDS - Use and Distribution of Bond Proceeds.”

Payment Record .....

The Bonds constitute the initial series of unlimited tax bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer, and storm drainage system (the “System”) to serve the District. The District will capitalize an amount equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the District’s Debt Service Fund.

Authorized But Unissued Bonds .....

\$152,005,000 principal amount of bonds for the purpose of acquiring and constructing the System and refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads and refunding of such bonds will remain authorized but unissued after issuance of the Bonds. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt.” In addition to the components of the System that the District is financing with the proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with the proceeds of bonds, if any, to be issued by the District in the future. The District’s Engineer estimates that the currently authorized but unissued bonds for water, sewer, and drainage facilities will be sufficient to finance all such facilities needed to serve the entire District. See “THE BONDS - Issuance of Additional Debt” and - “ Use and Distribution of Bond Proceeds,” “FUTURE DEVELOPMENT,” “THE SYSTEM,” and “RISK FACTORS - Future Debt.”

Municipal Bond Insurance. . . . .	Build America Mutual Assurance Company (“BAM”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”
Municipal Bond Rating. . . . .	S&P Global Ratings (BAM insured)... “AA” (stable outlook). See “BOND INSURANCE” and “RATING.” The Bonds do not currently have an underlying rating.
Bond Counsel . . . . .	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”
Disclosure Counsel . . . . .	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<b>Not</b> Qualified Tax-Exempt Obligations . . . . .	The Bonds have <b>not</b> been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

THE DISTRICT

Description . . . . .	Harris County Municipal Utility District No. 561, a political subdivision of the State of Texas, was created by the Texas Commission on Environmental Quality (the “TCEQ”) on January 10, 2019, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 234.65 acres of land. The District is located entirely within the corporate boundaries of the City of La Porte, Texas. All of the District is located within Harris County, Texas. The District is located approximately 20 miles east of the central business district of the City of Houston. The District is located entirely within the La Porte Independent School District. The District is located south of State Highway 225 on the west side of State Highway 146. See “THE DISTRICT - Authority” and - “Description,” “AERIAL PHOTOGRAPH OF THE DISTRICT,” and “APPENDIX A - LOCATION MAP.”
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Development of the District and Home and Apartment Construction . . . . .	As of January 1, 2021, the District contained 555 fully developed single-family residential lots on which 224 homes have been constructed, including 128 completed homes and 96 homes under construction. According to the District's Engineer, underground water distribution, wastewater collection, and storm drainage/detention facilities and street paving have been completed to serve the 555 single family residential lots located in Morgan’s Landing Phase I, Sections 1 through 5, Morgan’s Landing Phase II, Sections 6 through 8, and Morgan’s Landing Phase III, Sections 9 through 11, 14 and 15 (approximately 157.2 total acres); and such facilities are currently under construction in Morgan’s Landing Phase IV, Section 12 (34 single-family residential lots on approximately 7.6 acres) in the District as is delineated in the chart that appears in this Official Statement under the caption “DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION.” In addition, Domain Morgan’s Landing, a 350-unit apartment
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complex consisting of 12 residential buildings and a clubhouse, has been constructed on approximately 18 acres of land located within the District.

Developers, Home Builders  
and Other Principal Land Owners. . . . .

The developers of Morgan’s Landing located within the District, Beazer Homes Texas, L.P. (“Beazer Homes”) and Taylor Morrison of Texas, Inc. (“Taylor Morrison”), have completed the development of 555 single-family residential lots that have been subdivided as Morgan’s Landing Phase I, Sections 1 through 5, Morgan’s Landing Phase II, Sections 6 through 8, and Morgan’s Landing Phase III, Sections 9 through 11, 14 and 15. In addition, Morgan’s Landing Phase IV, Section 12 (34 single-family residential lots on approximately 7.6 acres) is currently under construction within the District, with completion expected in approximately August 2021. Beazer Homes and Taylor Morrison paid equal amounts for undivided interests in the land that has been developed as the above-referenced sections. As the development of such single-family residential lots has been undertaken, Beazer Homes and Taylor Morrison have each paid one-half of the costs of the development thereof and each has taken title to one-half of such fully-developed single-family residential lots for home building purposes. Beazer Homes and Taylor Morrison own approximately 12.6 acres of currently undeveloped land located within the District that are available for future development, all of which they expect to be utilized for future single-family residential development. However, since Beazer Homes and Taylor Morrison Homes have no obligation to the District to undertake the development of any of such acres, the District cannot predict that the development thereof will be undertaken.

Beazer Homes and Taylor Morrison are publicly traded corporations each of whose stock is listed on the New York Stock Exchange and are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the United States Securities and Exchange Commission (“SEC”). Reports, proxy statements and other information filed by Beazer Homes and Taylor Morrison can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website on the internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Beazer Homes and Taylor Morrison are sometimes together referred to herein as the “Developers” or “Builders.” The Builders have constructed and are constructing homes in Morgan’s Landing as is described in this Official Statement under the caption ”BUILDERS” and in the chart that appears under the caption “DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION.”

CityStreet Residential Partners (“CSRP”), a related entity of Domain at Morgan’s Landing LP (“Domain”), both of whose general partner is City Street GP, LLC, has substantially completed the construction of Domain Morgan’s Landing, a 350-unit apartment complex consisting of 12 residential buildings and a clubhouse on approximately 18 acres of land located within the District. As of December 31, 2020, ten buildings and the clubhouse are complete and are being leased and the remaining two buildings are substantially complete but are not yet being leased. CSRP owns approximately 10.51 acres located within the District that are available for future development. However, since CSRP has no obligation to the District to develop such remaining approximately 10.51 acres of land within the District, the District cannot represent that the development of such acreage will be undertaken.

Builders .....

Beazer Homes is currently constructing homes in Morgan’s Landing that range in size from approximately 1,456 to 3,847 square feet of living area and in sales price from approximately \$242,990 to \$426,990. Taylor Morrison Homes is currently constructing homes in Morgan’s Landing that range in size from approximately 1,532 to 3,786 square feet of living area and in sales price from approximately \$238,990 to \$363,990. Beazer Homes and Taylor Morrison Homes may change the types, sizes and sales prices of the homes which they choose to construct within the District entirely within their discretion, or may suspend home construction activity entirely.

Infectious Disease Outbreak  
(COVID-19) .....

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

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic conditions 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 the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

### **RISK FACTORS**

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "RISK FACTORS."



**SELECTED FINANCIAL INFORMATION**  
(Unaudited)

2020 Assessed Valuation .....	\$ 49,477,884 (a)
(As of January 1, 2020)	
See "TAX DATA" and "TAXING PROCEDURES"	
Estimated Valuation at November 1, 2020 .....	\$ 100,364,670 (b)
(As of November 1, 2020)	
See "TAX DATA" and "TAXING PROCEDURES"	
Direct Debt: The Bonds.....	\$ 9,500,000 (c)
Estimated Overlapping Debt .....	\$ <u>2,336,653</u>
Total Direct and Estimated Overlapping Debt .....	\$ <u>11,836,653</u>
Direct Debt Ratios	
: as a percentage of 2020 Assessed Valuation.....	19.20 %
: as a percentage of Estimated Valuation at November 1, 2020.....	9.47 %
Direct and Overlapping Debt Ratios	
: as a percentage of 2020 Assessed Valuation.....	23.92 %
: as a percentage of Estimated Valuation at November 1, 2020.....	11.79 %
Debt Service Fund Balance Estimated as of Delivery of the Bonds.....	\$ 414,550 (d)
General Fund Balance as of February 4, 2021.....	\$ 287,877
2020 Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax.....	\$ 0.00
Maintenance Tax.....	<u>0.79</u>
Total .....	\$ 0.79 (e)
Anticipated Approximate 2021 Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax.....	\$ 0.62
Maintenance Tax.....	<u>0.17</u>
Total .....	\$ 0.79 (e)
Percentage of Total Tax Collections (2019) as of January 31, 2021 .....	100.00 %
Percentage of 2020 Tax Collections as of January 31, 2021	83.75 %(e)
(In process of collection.).....	
Average Annual Debt Service Requirements on the Bonds (2022-2050) .....	\$ 449,584
Maximum Annual Debt Service Requirements on the Bonds (2050) .....	\$ 586,500
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds (2022-2050) at 90% Tax Collections	
Based Upon 2020 Assessed Valuation.....	\$ 1.01
Based Upon Estimated Valuation at November 1, 2020 .....	\$ 0.50

Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds (2050) at 90% Tax Collections

Based Upon 2020 Assessed Valuation.....	\$	1.32
Based Upon Estimated Valuation at November 1, 2020.....	\$	0.65

Number of Single Family Residences (Including 96 Residences Under Construction).....	224
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Completed Multi-Family Residential – 350-unit Domain Morgan’s Landing Apartments Including a Clubhouse

- (a) As of January 1, 2020, and comprises the District's 2020 tax roll. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the “Appraisal District”) at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the “Appraisal Review Board”). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District’s “Estimated Final Taxable Value with Hearing Loss” of such protested properties is \$2,066,018, which total is included in the amount of \$49,477,884. The Appraisal District has proposed the valuation of such protested properties to be \$3,142,752. The Appraisal District’s estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,104,324, which total is also included in the amount of \$49,477,884. The District is unable to predict the amount of the District’s final 2020 Assessed Valuation. Such final 2020 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2020. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments” and “TAXING PROCEDURES.”
- (b) Provided by the Appraisal Districts for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of November 1, 2020, and includes estimates of value resulting from the development and construction of taxable improvements from January 1, 2020, through October 31, 2020. The valuation of such additional improvements constructed from January 1, 2020, through October 31, 2020, which will be included in the District’s 2021 tax roll, may vary significantly from this estimate when the Appraisal Review Board certifies the value of District property for 2021. See “TAXING PROCEDURES.”
- (c) In addition to the components of the System that the District is financing with the proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with the proceeds of bonds, if any, to be issued by the District in the future. See “THE BONDS - Issuance of Additional Debt” and - “Use and Distribution of Bond Proceeds,” “FUTURE DEVELOPMENT,” “THE SYSTEM” and “RISK FACTORS - Future Debt.”
- (d) Neither Texas law nor the Bond Resolution requires the District to maintain any particular sum in the Debt Service Fund. The District will capitalize an amount equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the Debt Service Fund.
- (e) The District levied a tax rate of \$0.79 per \$100 of Assessed Valuation for 2020, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2021 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.62 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation in 2021. Therefore, the District's combined total tax for 2021 is expected to be approximately \$0.79 per \$100 of Assessed Valuation. As is enumerated in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2020 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District’s 2020 tax rate, is \$3.543251 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments.”

**\$9,500,000**  
**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 561**  
**UNLIMITED TAX BONDS**  
**SERIES 2021**

**INTRODUCTION**

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 561 (the “District”) of its Unlimited Tax Bonds, Series 2021 (the “Bonds”). The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54, Texas Water Code, as amended, an order of the Texas Commission on Environmental Quality (the “TCEQ”) dated November 19, 2020, an election held within the District (see “THE BONDS - Authority for Issuance”), and a resolution authorizing issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”).

Included in this Official Statement are descriptions of the Bonds, the plan of financing, and certain information about the District and its finances. 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 Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

**THE BONDS**

**General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the resolution (the “Bond Resolution”) of the Board of Directors of the District (the “Board”) authorizing the issuance of the Bonds. A copy of the Bond Resolution may be obtained from the District upon written request made to the District's Financial Advisor, Rathmann & Associates, L.P., 8584 Katy Freeway, Suite 250, Houston, Texas 77024.

The Bonds are dated March 1, 2021. Interest accrues, at the rates shown on the inside cover hereof, from March 1, 2021, and is payable on September 1, 2021, and on each March 1 and September 1 thereafter until the earlier of stated maturity or redemption. An aggregate of \$4,350,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2023 through 2039, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. An aggregate of \$5,150,000 of the Bonds are issued as term bonds (collectively, the “Term Bonds”), maturing on September 1 in each of the years 2045 and 2050, in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. Principal of the Bonds will be payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, or any successor paying agent/registrar (the “Paying Agent/Registrar,” “Paying Agent” or “Registrar”).

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

## Payment Record

The Bonds constitute the initial series of unlimited tax bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer, and storm drainage system (the “System”) to serve the District. The District will capitalize an amount equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the District’s Debt Service Fund.

## Book-Entry-Only System

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.*

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

**Record Date**

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

**Assignments, Transfers and Exchanges**

In the event the book-entry-only system is discontinued, the Bonds may be transferred, registered, and assigned only on the registration books of the Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of delivery of the Bonds to the Initial Purchaser, any Bond may be transferred or exchanged upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three business days after the receipt of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date. The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds, on receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity to keep them harmless. The District will require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

**Redemption Provisions**

*Mandatory Redemption*

The Term Bonds maturing on September 1 in each of the years 2045 and 2050 shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below).

<b>\$2,500,000 Term Bonds Maturing on September 1, 2045</b>	
<b><u>Mandatory Redemption Dates</u></b>	<b><u>Principal Amount</u></b>
September 1, 2040	\$370,000
September 1, 2041	390,000
September 1, 2042	405,000
September 1, 2043	425,000
September 1, 2044	445,000
September 1, 2045 (maturity)	465,000

**\$2,650,000 Term Bonds Maturing on September 1, 2050**  
**Mandatory Redemption Dates**                      **Principal Amount**

September 1, 2046	\$485,000
September 1, 2047	505,000
September 1, 2048	530,000
September 1, 2049	555,000
September 1, 2050 (maturity)	575,000

Notice of the mandatory redemption of Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See “BOOK-ENTRY-ONLY SYSTEM.”

*Optional Redemption*

The District reserves the right, at its option, to redeem the Bonds (including any Term Bonds) maturing on and after September 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds to be redeemed 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.” If less than all of the entire outstanding principal amount of a Term Bond is to be redeemed, the District will notify the Paying Agent/Registrar of the reductions in the remaining mandatory redemption amounts to result from the optional redemption. Notice of each exercise of the reserved right of optional redemption shall be given at least thirty (30) calendar days prior to the date fixed for redemption, in the manner specified in the Bond Resolution.

*Effects of Redemption*

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 Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

**Replacement of Registrar**

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

## **Authority for Issuance**

The Bonds constitute the initial series of unlimited tax bonds for waterworks, sanitary sewer and drainage facilities authorized by District voters at an election held within the District for that purpose on May 4, 2019. The Bonds are issued pursuant to the Bond Resolution, an election held within the District, Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. Issuance of the Bonds has been further authorized by an order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission").

## **Source of Payment**

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Registrar fees, and Appraisal District fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Bonds, and on additional bonds payable from taxes which may hereafter be issued, and Registrar fees.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of La Porte, or any entity other than the District.

## **Funds**

In the Bond Resolution, the Debt Service Fund is created, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds and twenty-four (24) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. A portion of the proceeds from the sale of the Bonds will be used to retire the BAN.

The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing the Developers and Domain for certain construction costs, paying interest on funds advanced by the Developers and Domain on behalf of the District, paying the costs of issuance of the BAN and the Bonds, and paying creation and operating costs. See "THE BONDS – Use and Distribution of Bond Proceeds" for a complete description of the use of Bond proceeds and the projects related thereto. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Debt Service Fund.

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide improvements and facilities consistent with the purposes for which the District was created. Voters in the District have authorized a total of \$161,505,000 principal amount of bonds for the purpose of acquiring and constructing the System and refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads and refunding of such bonds. Following the issuance of the Bonds, \$152,005,000 principal amount of bonds for the purpose of acquiring and constructing the System and refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads and refunding of such bonds authorized by the District's voters will remain unissued. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ).



In addition to the components of the System that the District is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System with the proceeds of the sale of additional bonds in the future. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt” and “RISK FACTORS - Future Debt.”

Based on present engineering cost estimates and anticipated development, in the opinion of the District's consulting engineer, Cobb Fendley & Associates, Inc. (the “Engineer”), the remaining \$152,005,000 authorized but unissued bonds for water, sewer and drainage facilities will be adequate to finance the extension of water, wastewater and storm drainage facilities and services to serve the entirety of the District at the full development thereof. See “DEVELOPMENT AND HOME CONSTRUCTION,” FUTURE DEVELOPMENT,” and “THE SYSTEM.”

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire plan and bonds for such purpose by the qualified voters in the District; (b) approval of the fire plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered developing a fire plan or calling an election at this time for such purposes.

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 not considered authorizing the preparation of a park plan or calling a park bond election at this time.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds. See “RISK FACTORS - Future Debt.”

### **No Arbitrage**

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

## **Dissolution**

Under existing Texas law, since the District lies wholly within the corporate limits of the City of La Porte, Texas, the District may be dissolved by the City of La Porte, without the District's consent, subject to compliance by the City of La Porte with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is dissolved, the City of La Porte must assume the District's assets and obligations (including the Bonds) and abolish the District within 90 days of the date of dissolution. Dissolution of territory by the City of La Porte is a policy-making matter within the discretion of the Mayor and City Council of the City of La Porte; therefore, the District makes no representation that the City of La Porte will ever dissolve the District and assume its debt. Moreover, no representation is made concerning the ability of the City of La Porte to make debt service payments should dissolution 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.

## **Registered Owners' Remedies**

Pursuant to Texas law, the Bond Resolution provides 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 Resolution into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to observe and perform its covenants and obligations to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See "Bankruptcy Limitation to Registered Owners' Rights" below.

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

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial

condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

The District may not be placed into bankruptcy involuntarily.

### **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.

### **Defeasance**

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the

United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Resolution.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future 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 Resolution 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 of those currently permitted under Texas law.

#### **Use and Distribution of Bond Proceeds**

Proceeds of the sale of the Bonds will be used by the District to pay (a) the cost of acquisition or construction of water, wastewater and drainage facilities serving the Domain Morgan's Landing Apartments and Morgan's Landing Phase 1, Section 1; clearing and grubbing and a detention pond to serve Morgan's Landing; and land acquisition costs; and (b) the principal of and accrued interest on the District's \$3,565,000 Bond Anticipation Note, Series 2020 (the "BAN"), the proceeds of the sale of which the District utilized to interim finance a portion of the cost of the aforementioned items. The District will also use the proceeds of the Bonds to pay for bond and BAN issuance costs, legal fees, fiscal agent's fees, fees to the TCEQ and the Attorney General of Texas, certain costs associated with the creation and operation of the District, and engineering fees relating to the foregoing projects.

**Construction Costs****District Share**

## A. Developer Contribution Items (a)

1. Morgan's Landing Clearing and Grubbing	\$ 340,914
2. Morgan's Landing Detention Pond	1,366,174
3. Public Utilities for Domain La Porte	1,489,697
4. Morgan's Landing Phase 1, Section 1 Water, Wastewater and Drainage	408,778
5. Engineering	798,305
6. Materials Testing	187,375
7. Storm Water Pollution Prevention Plan	<u>62,365</u>
Total Developer Contribution Items	\$4,653,608

## B. District Items

1. Land Acquisition Costs	<u>2,317,646</u>
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TOTAL CONSTRUCTION COSTS	\$6,971,254
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**Non-Construction Costs**

1. Legal Fees	\$ 230,000
2. Fiscal Agent Fees	190,000
3. Interest	
a. Capitalized Interest	414,550
b. Developer Interest (b)	265,756
c. Bond Anticipation Note Interest	133,688
4. Bond Discount	284,603
5. Bond Issuance Expenses	35,000
6. Bond Application Report Costs	55,000
7. Bond Anticipation Note Issuance Expenses	87,613
8. Market Study	13,565
9. Creation Costs	144,963
10. Operating Expenses	199,911
11. Attorney General Fee	9,500
12. TCEQ Bond Issuance Fee	23,750

13. Contingencies (c)	<u>440,847</u>
TOTAL NON-CONSTRUCTION COSTS	\$2,528,746
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$9,500,000</b>

- (a) The rules of the TCEQ require in certain instances that developers within a district subject to the jurisdiction of the TCEQ contribute to the construction program of such district an amount of money equal to thirty percent (30%) of the construction costs of certain water, sewer and drainage facilities in that district. The District requested an exemption from such developer participation requirement with respect to certain facilities being financed with portions of the proceeds of the sale of the Bonds on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the request for such exemption in its order authorizing the District to issue the Bonds.
- (b) Represents interest owed to the Developers and Domain on advances they have made on the District's behalf. The actual amount of interest owed will be calculated at the lesser of (i) the net effective interest rate borne by the Bonds or (ii) the interest rate at which the Developers and Domain have borrowed funds.
- (c) The TCEQ directed that any surplus funds resulting from the sale of bonds at a lower interest rate than proposed shall be shown as a contingency line item. The use of these funds is subject to approval by the TCEQ. Contingency represents the difference in the estimated and actual amounts of Capitalized Interest and Bond Discount.

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

## THE DISTRICT

### Authority

The District is a municipal utility district created by an order of the TCEQ, dated January 10, 2019, pursuant to the authority of Chapter 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The creation of the District was confirmed at an election held within the District on May 4, 2019. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code. The District is subject to the continuing supervision of the TCEQ.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water.

Under certain limited circumstances the District also is authorized to construct, develop and maintain park and recreational facilities and to construct roads. In addition, the District is authorized, after approval by the voters of the District and the TCEQ, to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. The City of La Porte, Texas (the "City"), within whose corporate boundaries the District lies, consented to creation of the District. The City imposes certain requirements which limit the purposes for which the District may sell bonds to the acquisition and improvement of waterworks, wastewater, and drainage facilities, firefighting facilities, roads, and recreational facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; and require certain approvals by the City of the District's construction plans and specifications.

**Description**

The District contains approximately 234.65 acres of land. The District is located entirely within the corporate boundaries of the City of La Porte, Texas. All of the District is located within Harris County, Texas. The District is located approximately 20 miles east of the central business district of the City of Houston. The District is located entirely within the La Porte Independent School District. The District is located south of State Highway 225 on the west side of State Highway 146. See “AERIAL PHOTOGRAPH OF THE DISTRICT” and “APPENDIX A - LOCATION MAP.”

**Management of the District**

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

The current members and officers of the Board, along with their respective terms of office, are listed below.

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
Laura Burlton	President	2024
Vacant	Vice President	2022
Brad Durrett	Assistant Vice President	2022
Claire Ludwig	Secretary	2024
Karina Moreno	Assistant Secretary	2022

The District does not have a general manager or any other employee, but has contracted for services, as follows.

**Tax Assessor/Collector**

The District's Tax Assessor/Collector is Assessments of the Southwest, Inc. According to Assessments of the Southwest, Inc., its employees serve as tax assessor/collector for approximately 204 taxing jurisdictions. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Appraisal Districts and bills and collects such levy.

**Bookkeeper**

The District's bookkeeper is Myrtle Cruz, Inc. According to Myrtle Cruz, Inc., it currently serves approximately 359 utility districts as bookkeeper.

**Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's current auditor is McGrath & Co., PLLC, Certified Public Accountants. A copy of the District's audit for the fiscal year ended December 31, 2019, which was prepared by McGrath & Co., PLLC, is included as “APPENDIX B” to this Official Statement.

## **Engineer**

The District has employed Cobb, Fendley & Associates, Inc., Houston, Texas, as Consulting Engineer (the “Engineer”) in connection with overall planning activities and the design of the System.

## **Disclosure Counsel**

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

## **Bond Counsel and General Counsel**

The District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as general counsel to the District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

## **Financial Advisor**

The District has engaged Rathmann & Associates, L.P. as financial advisor (the “Financial Advisor”) to the District. The fee paid the Financial Advisor for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fee is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”). Rathmann & Associates, L.P.’s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.’s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.’s registration filings, may be accessed through <http://www.sec.gov/edgar/searchedgar/companysearch.html>.

## **DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION**

As of January 1, 2021, the District contained 555 fully developed single-family residential lots on which 224 homes have been constructed, including 128 completed homes and 96 homes under construction. According to the District's Engineer, underground water distribution, wastewater collection, and storm drainage/detention facilities and street paving have been completed to serve the 555 single family residential lots located in Morgan's Landing Phase I, Sections 1 through 5, Morgan's Landing Phase II, Sections 6 through 8, and Morgan's Landing Phase III, Sections 9 through 11, 14 and 15 (approximately 157.2 total acres); and such facilities are currently under construction in Morgan's Landing Phase IV, Section 12 (34 single-family residential lots on approximately 7.6 acres) in the District as is delineated in the chart that appears below. In addition, Domain Morgan's Landing, a 350-unit apartment complex consisting of 12 residential buildings and a clubhouse, has been constructed on approximately 18 acres of land located within the District.



The following table reflects the status of residential development and home construction within the District as of January 1, 2021:

Subdivision	Lots				Homes					Totals
	Fully Developed		Under Development		Under Construction		Completed		Models	
	Lots	Acres	Lots	Acres	Sold (1)	Unsold	Sold (1)	Unsold		
Morgan's Landing, Phase I										
Section 1	10	4.6			0	0	0	0	6	6
Section 2	24	6.9			1	0	22	0	0	23
Section 3	52	16.2			9	0	34	0	0	43
Section 4	43	11.0			3	0	27	0	0	30
Section 5	36	7.7			3	0	19	0	0	22
Morgan's Landing, Phase II										
Section 6	39	7.8			5	0	6	1	0	12
Section 7	70	16.4			21	5	1	1	0	28
Section 8	55	16.9			15	1	11	0	0	27
Morgan's Landing, Phase III										
Section 9	95	23.6			4	3	0	0	0	7
Section 10	13	2.7			0	0	0	0	0	0
Section 11	46	12.2			8	0	0	0	0	8
Section 14	29	6.2			9	0	0	0	0	9
Section 15	43	25.0			9	0	0	0	0	9
Morgan's Landing, Phase IV										
Section 12	—	—	34	7.6	0	0	0	0	0	0
Totals	555	157.2	34	7.6	87	9	120	2	6	224

(1) Includes homes sold and contracted for sale. Homes under contract for sale are, in some instances, subject to conditions of appraisal, loan application, approval and inspection.

## DEVELOPERS, HOME BUILDERS AND OTHER PRINCIPAL LAND OWNERS

### General

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be emplaced in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent (30%) of the cost of emplacing certain of the water, wastewater and drainage facilities in the municipal utility district pursuant to the rules of the TCEQ. The District requested an exemption from such developer participation requirement with respect to the Bonds on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the request for such exemption in its Order authorizing the District to issue the Bonds. The relative success or failure of a developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on the developer's right to sell any or all of the land which the developer owns within a district.

The developers of Morgan's Landing located within the District, Beazer Homes Texas, L.P. ("Beazer Homes") and Taylor Morrison of Texas, Inc. ("Taylor Morrison"), have completed the development of 555 single-family residential lots that have been subdivided as Morgan's Landing Phase I, Sections 1 through 5, Morgan's Landing Phase II, Sections 6 through 8, and Morgan's Landing Phase III, Sections 9 through 11, 14 and 15. In addition, Morgan's Landing Phase IV, Section 12 (34 single-family residential lots on approximately 7.6 acres) is currently under construction within the District, with completion expected in approximately August 2021. Beazer Homes and Taylor Morrison paid equal amounts for undivided interests in the land that has been developed as the above referenced sections. As the development of such single-family residential lots has been undertaken, Beazer Homes and Taylor Morrison have each paid one-half of the costs of the development thereof and each has taken title to one-half of such fully-developed single-family residential lots for home building purposes. Beazer Homes and Taylor Morrison own approximately 12.6 acres of currently undeveloped land located within the District that are available for future development, all of which they expect to be utilized for future single-family residential development. However, since Beazer Homes and Taylor Morrison Homes have no obligation to the District to undertake the development of any of such acres, the District cannot predict that the development thereof will be undertaken.

Beazer Homes and Taylor Morrison are publicly traded corporations each of whose stock is listed on the New York Stock Exchange and are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the United States Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by Beazer Homes and Taylor Morrison can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website on the internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Beazer Homes and Taylor Morrison are sometimes together referred to herein as the "Developers" or "Builders." The Builders have constructed and are constructing homes in Morgan's Landing as is described in this Official Statement under the caption "BUILDERS" and in the chart that appears under the caption "DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION."

CityStreet Residential Partners ("CSRP"), a related entity of Domain at Morgan's Landing LP ("Domain"), both of whose general partner is City Street GP, LLC, has substantially completed the construction of Domain Morgan's Landing, a 350-unit apartment complex consisting of 12 residential buildings and a clubhouse on approximately 18 acres of land located within the District. As of December 31, 2020, ten buildings and the clubhouse are complete and are being leased and the remaining two buildings are substantially complete but are not yet being leased. CSRP owns approximately 10.51 acres located within the District that are available for future development. However, since CSRP has no obligation to the District to develop such remaining approximately 10.51 acres of land within the District, the District cannot represent that the development of such acreage will be undertaken.

## **BUILDERS**

Beazer Homes is currently constructing homes in Morgan's Landing that range in size from approximately 1,456 to 3,847 square feet of living area and in sales price from approximately \$242,990 to \$426,990. Taylor Morrison Homes is currently constructing homes in Morgan's Landing that range in size from approximately 1,532 to 3,786 square feet of living area and in sales price from approximately \$238,990 to \$363,990. Beazer Homes and Taylor Morrison Homes may change the types, sizes and sales prices of the homes which it chooses to construct within the District entirely within their discretion, or may suspend home construction activity entirely.

## **FUTURE DEVELOPMENT**

As is described above under the caption “DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION,” approximately 154.5 acres of the total of approximately 234.65 acres of land located within the District have been developed into 555 single-family residential lots, the development of which is complete; 34 total single-family residential lots are currently under construction on approximately 7.6 total acres in the District; and Domain Morgan’s Landing, a 350-unit apartment complex consisting of 12 residential buildings and a clubhouse, has been constructed on approximately 18 acres of land located within the District. Beazer Homes and Taylor Morrison Homes own approximately 12.6 acres located within the District that are available for future development that are currently expected to be developed as future single-family residential lots and CSRP owns approximately 10.51 acres located within the District that are available for future development. The remaining acreage within the District is comprised of streets, drainage easements and open space. Since no party, including Beazer Homes, Taylor Morrison Homes, Domain or CSRP, is under any obligation to the District to undertake the development of any currently undeveloped portion of the District, the District can make no representation as to when, or whether, the undeveloped portions of the District might be developed.

AERIAL PHOTOGRAPH OF THE DISTRICT  
(taken January 2021)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(taken January 2021)



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT**  
**(taken January 2021)**



## DISTRICT DEBT

### Debt Service Requirement Schedule

The following schedule sets forth the principal and interest requirements of the Bonds.

<u>Year</u>	<u>The Bonds</u>		<u>Total Debt Service Requirements</u>
	<u>Principal (Due 9-1)</u>	<u>Interest</u>	
2021		\$ 103,638	\$ 103,638
2022		207,275	207,275
2023	\$ 175,000	207,275	382,275
2024	185,000	199,400	384,400
2025	190,000	191,075	381,075
2026	200,000	183,000	383,000
2027	210,000	175,000	385,000
2028	220,000	170,800	390,800
2029	230,000	166,400	396,400
2030	240,000	161,800	401,800
2031	250,000	157,000	407,000
2032	260,000	152,000	412,000
2033	275,000	146,800	421,800
2034	285,000	141,300	426,300
2035	300,000	135,600	435,600
2036	310,000	129,600	439,600
2037	325,000	123,400	448,400
2038	340,000	116,900	456,900
2039	355,000	110,100	465,100
2040	370,000*	103,000	473,000
2041	390,000*	95,600	485,600
2042	405,000*	87,800	492,800
2043	425,000*	79,700	504,700
2044	445,000*	71,200	516,200
2045	465,000*	62,300	527,300
2046	485,000*	53,000	538,000
2047	505,000*	43,300	548,300
2048	530,000*	33,200	563,200
2049	555,000*	22,600	577,600
2050	<u>575,000*</u>	<u>11,500</u>	<u>586,500</u>
	\$9,500,000	\$3,641,563	\$13,141,563

Average Annual Requirements (2022-2050) .....	\$ 449,584
Maximum Annual Requirement (2050) .....	\$ 586,500

\* Represents mandatory sinking fund payments on Term Bonds.

**Bonded Indebtedness**

2020 Assessed Valuation .....	\$	49,477,884 (a)
(As of January 1, 2020)		
See "TAX DATA" and "TAXING PROCEDURES"		
Estimated Valuation at November 1, 2020 .....	\$	100,364,670 (b)
(As of November 1, 2020)		
See "TAX DATA" and "TAXING PROCEDURES"		
Direct Debt: The Bonds.....	\$	9,500,000 (c)
Estimated Overlapping Debt .....	\$	<u>2,336,653</u>
Total Direct and Estimated Overlapping Debt .....	\$	<u>11,836,653</u>
Direct Debt Ratios		
: as a percentage of 2020 Assessed Valuation.....		19.20 %
: as a percentage of Estimated Valuation at November 1, 2020.....		9.47 %
Direct and Overlapping Debt Ratios		
: as a percentage of 2020 Assessed Valuation.....		23.92 %
: as a percentage of Estimated Valuation at November 1, 2020.....		11.79 %
Debt Service Fund Balance Estimated as of Delivery of the Bonds.....	\$	414,550 (d)
General Fund Balance as of February 4, 2021.....	\$	287,877
2020 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax .....	\$	0.00
Maintenance Tax .....		<u>0.79</u>
Total .....	\$	0.79 (e)
Anticipated Approximate 2021 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax .....	\$	0.62
Maintenance Tax .....		<u>0.17</u>
Total .....	\$	0.79 (e)

(a) As of January 1, 2020, and comprises the District's 2020 tax roll. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$2,066,018, which total is included in the amount of \$49,477,884. The Appraisal District has proposed the valuation of such protested properties to be \$3,142,752. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,104,324, which total is also included in the amount of \$49,477,884. The District is unable to predict the amount of the District's final 2020 Assessed Valuation. Such final 2020 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2020. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."



- (b) Provided by the Appraisal Districts for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of November 1, 2020, and includes estimates of value resulting from the development and construction of taxable improvements from January 1, 2020, through October 31, 2020. The valuation of such additional improvements constructed from January 1, 2020, through October 31, 2020, which will be included in the District's 2021 tax roll, may vary significantly from this estimate when the Appraisal Review Board certifies the value of District property for 2021. See "TAXING PROCEDURES."
- (c) In addition to the components of the System that the District is financing with the proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt" and - "Use and Distribution of Bond Proceeds," "FUTURE DEVELOPMENT," "THE SYSTEM" and "RISK FACTORS - Future Debt."
- (d) Neither Texas law nor the Bond Resolution requires the District to maintain any particular sum in the Debt Service Fund. The District will capitalize an amount equal to the initial 24 months of interest payments from the proceeds of the sale of the Bonds, and will deposit such sum in the Debt Service Fund.
- (e) The District levied a tax rate of \$0.79 per \$100 of Assessed Valuation for 2020, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2021 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.62 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation in 2021. Therefore, the District's combined total tax for 2021 is expected to be approximately \$0.79 per \$100 of Assessed Valuation. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2020 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2020 tax rate, is \$3.543251 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and - "District Tax Levy and Overlapping District Taxes and Functions."

**Estimated Direct and Overlapping Debt Statement**

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

<u>Taxing Jurisdiction</u>	<u>Debt as of November 1, 2020</u>	<u>Estimated Overlapping Percent</u>	<u>Amount</u>
Harris County	\$1,743,427,125	0.00979%	\$170,695
Harris County Department of Education	20,185,000	0.00979	1,976
Harris County Flood Control District	334,270,000	0.00979	32,728
Harris County Hospital District	86,050,000	0.00979	8,425
Port of Houston Authority	492,439,397	0.00979	48,214
La Porte Independent School District	331,150,000	0.40142	1,329,316
San Jacinto College District	480,440,414	0.07576	363,968
City of La Porte	31,835,000	1.19784	<u>381,331</u>
Total Estimated Overlapping Debt			\$2,336,653
The District (the Bonds)			<u>\$9,500,000</u>
Total Direct & Estimated Overlapping Debt			\$11,836,653

**Debt Ratios**

	<u>% of 2020 Assessed Valuation</u>	<u>% of Estimated Valuation at November 1, 2020</u>
Direct Debt .....	19.20%	9.47%
Direct and Estimated Overlapping Debt .....	23.92%	11.79%

**TAX DATA**

**Debt Service Tax**

All taxable property located within the District is subject to the assessment, levy, and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, sufficient to pay principal of and interest on the Bonds, and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Resolution to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and

interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements, and available funds. The District anticipates levying its initial debt service tax in 2021 of approximately \$0.62 per \$100 of Assessed Valuation.

**Tax Rate Limitation**

Debt Service: Unlimited (no legal limit as to rate or amount).  
 Maintenance: \$1.50 per \$100 Assessed Valuation.

**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. On May 4, 2019, the Board was authorized by a vote of the District's electors to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. The District levied a maintenance tax of \$0.79 per \$100 of Assessed Valuation for 2020, as is described below under the caption "Tax Rate Distribution." The District expects to levy a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation for 2021.

**Historical Values and Tax Collection History**

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

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate(a)</u>	<u>Total Levy</u>	<u>% Collections</u>	
				<u>Current &amp; Prior Years (b)</u>	<u>Year Ending 9/30</u>
2019	\$12,913,165	\$0.79	\$102,014	100.00 %	2020
2020	49,477,884(c)	0.79	390,875	83.75 (d)	2021

- (a) Per \$100 of Assessed Valuation.
- (b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through January 31, 2021.
- (c) Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$2,066,018, which total is included in the amount of \$49,477,884. The Appraisal District has proposed the valuation of such protested properties to be \$3,142,752. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,104,324, which total is also included in the amount of \$49,477,884. The District is unable to predict the amount of the District's final 2020 Assessed Valuation. Such final 2020 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2020. See "TAXING PROCEDURES."
- (d) As of January 31, 2021. In process of collection.

**Tax Rate Distribution**

	<u>2021*</u>	<u>2020</u>	<u>2019</u>
Debt Service	\$0.62	\$0.00	\$0.00
Maintenance & Operations	<u>0.17</u>	<u>0.79</u>	<u>0.79</u>
Total	\$0.69	\$0.79	\$0.79

\* Anticipated approximate rate.

**Analysis of Tax Base**

The following table illustrates the composition of property located within the District for the past two years.

<u>Type of Property</u>	<u>2020</u>		<u>2019</u>	
	<u>Assessed Value</u>	<u>%</u>	<u>Assessed Value</u>	<u>%</u>
Land	\$16,416,128	33.18%	\$12,913,165	100.00%
Improvements	29,863,296	60.36	0	0.00
Personal Property	65,980	0.13	0	0.00
Uncertified	3,170,342	6.41	0	0.00
Exemptions	<u>(37,862)</u>	<u>(0.08)</u>	<u>0</u>	<u>(0.00)</u>
Total	\$49,477,884*	100.00%	\$12,913,165	100.00%

\* Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$2,066,018, which total is included in the amount of \$49,477,884. The Appraisal District has proposed the valuation of such protested properties to be \$3,142,752. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,104,324, which total is also included in the amount of \$49,477,884. The District is unable to predict the amount of the District's final 2020 Assessed Valuation. Such final 2020 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2020. See "TAXING PROCEDURES."

**Principal 2020 Taxpayers**

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2020. The information reflects the composition of property ownership reflected on the District's 2020 tax roll.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Taxable Value</u>	<u>% of 2020 Tax Roll</u>
Domain at Morgans Landing LP*	Land and Improvements	\$14,998,871	30.31%
Beazer Homes Texas, L.P.	Land	8,327,127	16.83
Taylor Morrison of Texas, Inc.	Land and Improvements	2,661,182	5.38
CSRP Land Investments LP*	Land	1,588,455	3.21
Homeowner	Land and Improvements	381,215	0.77
Homeowner	Land and Improvements	372,428	0.75
Homeowner	Land and Improvements	368,879	0.75
Homeowner	Land and Improvements	360,909	0.73
Homeowner	Land and Improvements	339,023	0.69
Homeowner	Land and Improvements	<u>337,867</u>	<u>0.68</u>
		\$29,735,956	60.10%

\* Related entities.

**Tax Exemption**

The District has not adopted a residential homestead exemption for persons 65 or older or disabled persons or a general residential homestead exemption for 2020. See "TAXING PROCEDURES."

**Additional Penalties**

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

## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2020 Assessed Valuation or the Estimated Valuation at November 1, 2020. The calculations assume collection of 90% of taxes levied, no use of District funds on hand other than tax collections, and the sale of no bonds by the District except the Bonds.

Average Annual Debt Service Requirements (2022-2050) .....	\$449,584
Tax Rate of \$1.01 on the 2020 Assessed Valuation (\$49,477,884) produces.....	\$449,754
Tax Rate of \$0.50 on the Estimated Valuation at November 1, 2020 (\$100,364,670) produces.....	\$451,641
Maximum Annual Debt Service Requirement (2050) .....	\$586,500
Tax Rate of \$1.32 on the 2020 Assessed Valuation (\$49,477,884) produces.....	\$587,797
Tax Rate of \$0.65 on the Estimated Valuation at November 1, 2020 (\$100,364,670) produces.....	\$587,133

The District levied a tax rate of \$0.79 per \$100 of Assessed Valuation for 2020, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2021 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.62 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation in 2021. Therefore, the District's combined total tax for 2021 is expected to be approximately \$0.79 per \$100 of Assessed Valuation. As the above table indicates, the anticipated approximate 2021 debt service tax rate will be sufficient to pay the average annual but not the maximum annual debt service requirement on the Bonds given taxable values in the District at the level of the Estimated Valuation at November 1, 2020, assuming the District will have a tax collection rate of 90%, no use of District funds on hand other than tax collections for such purpose, and the issuance of no additional bonds by the District other than the Bonds. See "TAXING PROCEDURES" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments." However, as is illustrated above under the caption "Historical Values and Tax Collection History," the District had collected 100.00% of its 2019 tax levy as of January 31, 2021, and its 2020 tax levy, which is in the process of collection, was 83.75% collected as of such date. In addition, the District's Debt Service Fund balance is expected to be \$414,550 as of the date of delivery of the Bonds. Therefore, the District anticipates that it will be able to meet the debt service requirements on the Bonds without increasing the tax rate for debt service above the debt service rate which the District anticipates levying for 2021 – approximately \$0.62 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAXING PROCEDURES" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments." In addition to the components of the System that the District is financing with the proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt" and - "Use and Distribution of Bond Proceeds," "FUTURE DEVELOPMENT," "THE SYSTEM," and "RISK FACTORS - Future Debt."

## Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to the ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2020 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2020 Tax Rate Per \$100 of A.V.</u>
Harris County	0.391160
Harris Department of Education	0.004993
Harris County Flood Control District	0.031420
Harris County Hospital District	0.166710
Port of Houston Authority	0.009910
La Porte Independent School District	1.269700
San Jacinto College District	0.169358
City of La Porte	0.710000
The District (i)	<u>0.790000</u>
	\$3.543251

- (i) The District levied a tax rate of \$0.79 per \$100 of Assessed Valuation for 2020, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2021 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.62 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation in 2021. Therefore, the District's combined total tax for 2021 is expected to be approximately \$0.79 per \$100 of Assessed Valuation.

No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

## TAXING PROCEDURES

### Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under "THE BONDS - Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations, if any. See "TAX DATA - Maintenance Tax" and - "Tax Rate Distribution."

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

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

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

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

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 of taxable valuation depending on the disability rating of the veteran. A veteran who receives a disability rating of 100%, and, under certain circumstances, the surviving spouse of such veteran, is entitled to the exemption for the full amount of the residential homestead. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount to be transferred to a subsequent residence homestead of the surviving spouse.



**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has not granted a general residential homestead exemption for 2020. See “TAX DATA - Exemptions.”

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

## **Tax Abatement**

Harris County, or the City of La Porte may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of La Porte (if it were to annex the area), Harris County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

## **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it 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, open space land and timberland.

The Property Tax Code requires the Appraisal Districts 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 Districts at least once every three years. It is not known what frequency of reappraisals will be utilized by the Appraisal Districts or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal Districts 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 Districts choose to formally include such values on its appraisal roll.

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

### **District and Taxpayer Remedies**

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

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.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the

amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

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

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

#### *Special Taxing Units*

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

#### *Developed Districts*

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District

lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

### *Developing Districts*

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

### *The District*

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

### **Additional Penalties**

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

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

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS - Tax Collection Limitations."

## THE SYSTEM

### Regulation

According to the Engineer, the District's water distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction and operation of the System must be accomplished in accordance with the standards and specifications of such entities and are subject to inspection by each such entity. The TCEQ exercises continuing supervisory authority over the District. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, and, in some instances, the TCEQ and the U.S. Army Corps of Engineers. Harris County and the City also exercise regulatory jurisdiction over the District's System. The total number of equivalent single-family connections ("ESFCs") estimated at this time for the District upon the full development of its approximately 234.65 acres is 1,171 with a total estimated population of 3,211 people. The following descriptions are based upon information supplied by the District's Engineer.

### Description

The District is financing its cost of the construction or acquisition of components of the System to serve Morgan's Landing Phase 1, Section 1 and the Domain Morgan's Landing Apartments, and other facilities with a portion of the proceeds of the sale of the Bonds. In addition to the components of the System that the District is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds"), the District expects to finance the acquisition or construction of additional components of the System with the proceeds of the sale of additional bonds in the future, if any.

See "THE BONDS - Authority for Issuance" and - "Issuance of Additional Debt" and "RISK FACTORS - Future Debt."

### Water Supply

The District does not own any water supply facilities. The District receives water from the City of La Porte (City). Pursuant to the "Amended and Restated Utility Agreement" (Agreement) dated April 23, 2018, the City has 1,200 ESFCs of excess water supply available to the District, which is sufficient to provide service to the entirety of the District upon its full development. The District receives water from six connections with the City. The District does not have any other water interconnects.

### Wastewater Treatment

The District receives wastewater treatment service from the City. Pursuant to the Agreement, the City has 1,200 ESFCs of excess wastewater capacity available to the District, which is sufficient to provide service to the entirety of the District upon its full development.

### Subsidence and Conversion to Surface Water Supply

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 is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2005, the Texas legislature created the North Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including the District) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain

treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority’s GRP. Pursuant to its GRP, the Authority is delivering surface water to the District.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the District for groundwater pumped by the District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, substantial fees per 1,000 gallons based on the amount of groundwater pumped by the District, and the amount of surface water received from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) have limited groundwater withdrawals to no more than 70% of the total water demand of the water users within the Authority’s GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total water demand of the water users within the Authority’s GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a substantial disincentive fee penalty, currently \$6.50 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District fails to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

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

According to the Engineer, information received through the Federal Emergency Management Agency indicates that the District is located on Flood Insurance Rate Map Panel 48157CO13OL, 48157CO135L, 48157CO14OL, and 48157CO145L and that no portion of the District is located within a special flood hazard area.

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

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.

## RISK FACTORS

### General

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

### Factors Affecting Taxable Values and Tax Payments

**Economic Factors:** The maintenance of or the potential increase in taxable valuation of the District are directly related to the vitality of the single and multi-family residential housing industry, and can be significantly affected by factors such as interest rates, construction costs, and consumer demand. The market value of homes, lots and apartments is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the value of existing homes and occupancy of apartments (see “Potential Effects of Oil Price Declines on the Houston Area” below). Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the caption “DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION,” (i) the District contains an aggregate of 555 fully developed single-family residential lots and certain restricted and unrestricted reserves; (ii) as of January 1, 2021, the District contained 224 single-family homes, including 96 homes under construction; (iii) 318 vacant fully-developed single-family residential lots that are available for home construction; (iv) the Builders are currently constructing homes within the District, (v) 34 single-family residential lots are currently under construction, and (vi) the 350-unit Domain Morgan’s Landing apartments and a clubhouse have been constructed within the District, the District cannot predict the pace or magnitude of any future development or home construction or construction of other improvements, including apartments, in the District other than that which has occurred to date. Further, the District cannot predict the level of occupancy of homes or apartments within the District.

**National Economy:** There has been a downturn in new housing construction in the United States, resulting in a decline in national housing market values. Although, as is stated above under “Economic Factors,” and as described in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION,” (i) the District contains an aggregate of 555 fully developed single-family residential lots and certain restricted and unrestricted reserves; (ii) as of January 1, 2021, the District contained 224 single-family homes, including 96 homes under construction; (iii) 318 vacant fully- developed single-family residential lots that are available for home construction; (iv) the Builders are currently constructing homes within the District, (v) 34 single-family residential lots are currently under construction, and (vi) the 350-unite Domain Morgan’s Landing

apartments and a clubhouse have been constructed within the District, the District cannot predict the pace or magnitude of any future development or home construction or construction of other improvements, including apartments, in the District other than that which has occurred to date. Further, the District cannot predict the level of occupancy of homes or apartments within the District. The District cannot predict what impact, if any, a downturn in the local housing markets and a continued downturn in the national housing and financial markets may have on the Houston market generally and the District specifically.

**Credit Markets and Liquidity in the Financial Markets:** Interest rates and the availability of mortgage and development funding have a direct impact on development and homebuilding activity, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which homebuilders are able to finance the construction of new homes for sale. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District and of homebuilders to initiate the construction of new homes for sale. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or home construction within the District. In addition, since the District is located approximately 20 miles east of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect development and homebuilding plans in the District and restrain the growth of the District's property tax base.

**Principal Land Owners' Obligations to the District:** Domain was the District's largest taxpayer in 2020 with land and apartments the 2020 Assessed Valuation of which was \$14,998,871, or approximately 30.31% of the District's 2020 tax roll. Beazer Homes was the District's second largest taxpayer in 2020 with land and improvements the 2020 Assessed Valuation of which was \$8,327,127, or approximately 16.83% of the District's 2020 tax roll. Taylor Morrison was the District's third largest taxpayer in 2020 with land and improvements the 2020 Assessed Valuation of which was \$2,661,182, or approximately 5.38% of the District's 2020 tax roll. Therefore, The District's three largest taxpayers owned property in the District that in 2020 comprised approximately 52.52% of the District's 2020 tax roll. The District cannot represent that its tax roll will not continue to be concentrated to such a degree in a small number of taxpayers. See "DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION," "DEVELOPERS, HOME BUILDERS AND OTHER PRINCIPAL LAND OWNERS," "BUILDERS," and "TAX DATA - Principal 2020 Taxpayers." The ability of Domain, Beazer Homes and Taylor Morrison (all defined in this Official Statement under the caption "DEVELOPERS, HOME BUILDERS AND OTHER PRINCIPAL LAND OWNERS"), or any other principal taxpayer within the District to make full and timely payments of taxes levied against their property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. As is also described under such caption, Beazer Homes and Taylor Morrison own approximately 12.6 acres located within the District that are available for future development that are currently expected to be developed as future single-family lots and CSRPs own approximately 10.51 acres located within the District that are available for future development. None of the owners of any of such currently undeveloped acres is under any obligation to the District to undertake the development of any of such acres for any particular type of development, according to any timetable, or at all and no home building company, including any of the Builders, has any obligation to the District to construct homes within the District. Moreover, any such owner may sell the land that it owns at its sole discretion. Therefore, the District can make no representation whether, or when, any development might occur (nor what type of development might occur) on any of the currently undeveloped land located within the District. See "FUTURE DEVELOPMENT."

**Maximum Impact on District Tax Rates:** Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2020 Assessed Valuation of property located within the District is \$49,477,884. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds will be \$586,500 (2050) and the average annual debt service requirements will be \$449,584 (2022 through 2050,



inclusive). Assuming no increase to nor decrease from the 2020 Assessed Valuation, tax rates of \$1.32 and \$1.01 per \$100 of Assessed Valuation at a 90% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements on the Bonds, respectively, assuming no use of other legally available funds on hand, and the issuance of no bonds by the District except the Bonds. The Estimated Valuation at November 1, 2020, of property located within the District is \$100,364,670. Assuming no increase to nor decrease from the Estimated Valuation at November 1, 2020, tax rates of \$0.65 and \$0.50 per \$100 of Assessed Valuation at a 90% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively, on the Bonds, assuming no use of other legally available funds on hand, and the issuance of no bonds by the District except the Bonds. See “TAX DATA - Tax Rate Calculations.”

The District levied a tax rate of \$0.79 per \$100 of Assessed Valuation for 2020, all of which is a maintenance tax. The District anticipates levying its first debt service tax in 2021 in connection with the issuance of the Bonds. Such initial debt service tax is expected to be in the approximate amount of \$0.62 per \$100 of Assessed Valuation. The District anticipates levying a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation in 2021. Therefore, the District's combined total tax for 2021 is expected to be approximately \$0.79 per \$100 of Assessed Valuation. As is indicated above, the anticipated approximate 2021 debt service tax rate will be sufficient to pay the average annual but not the maximum annual debt service requirement on the Bonds given taxable values in the District at the level of the Estimated Valuation at November 1, 2020, assuming the District will have a tax collection rate of 90%, no use of District funds on hand other than tax collections for such purpose, and the issuance of no additional bonds by the District other than the Bonds. See “TAXING PROCEDURES” and “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments.” However, as is illustrated above under the caption “Historical Values and Tax Collection History,” the District had collected an average of 100.00% of its 2019 tax levies as of January 31, 2021, and its 2020 tax levy, which is in the process of collection, was 83.75% collected as of such date. In addition, the District's Debt Service Fund balance is expected to be \$414,550 as of the date of delivery of the Bonds. Therefore, the District anticipates that it will be able to meet the debt service requirements on the Bonds without increasing the tax rate for debt service above the debt service rate which the District anticipates levying for 2021 – approximately \$0.62 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners.

Increases in the District's tax rate to substantially higher levels than the approximate debt service rate of \$0.62 per \$100 of Assessed Valuation which the District anticipates levying for 2021 (plus a maintenance tax of approximately \$0.17 per \$100 of Assessed Valuation) may have an adverse impact upon future development of the District, the sale and construction of homes within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. As is enumerated in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2020 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2020 tax rate, is \$3.543251 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

One must consider the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District, and the tax rates levied by other overlapping jurisdictions, are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District's tax rate, will be competitive with the tax rates of competing projects. See “TAX DATA - Estimated Overlapping Taxes,” “TAXING PROCEDURES,” and “THE BONDS - Registered Owners' Remedies.”

## **Tax Collection Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (i) cumbersome, time-consuming, and expensive collection procedures, (ii) a bankruptcy court's stay of tax collection procedures against a taxpayer, (iii) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (iv) the taxpayer's right to redeem the property within two years of foreclosure. 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 and Bankruptcy**

In the event of default in the payment of principal or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not 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. Based on recent Texas court decisions, it is unclear whether §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Registered Owners' Remedies."

The District may not be placed into bankruptcy involuntarily.

## **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

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

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed. There has been no definitive judicial determination of the validity of these provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by state property tax law, and that, although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract, and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to

and after the enactment of FIRREA. Accordingly, to the extent the FIRREA provisions are valid and applicable to any property in the District and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes.

### **Marketability**

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

### **Future Debt**

The District has the right to issue the remaining \$152,005,000 principal amount of bonds for the purpose of acquiring and constructing the System refunding of such bonds, \$19,620,000 principal amount of unlimited tax bonds for recreational facilities and refunding of such bonds, and \$68,387,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing roads refunding of such bonds (see "THE BONDS Issuance of Additional Debt"), and such additional bonds as may hereafter be approved by both the Board and voters of the District. The District also has the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Resolution. All of the remaining \$152,005,000 bonds for waterworks, wastewater, and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such \$152,005,000 bonds for waterworks, wastewater, and drainage facilities is also subject to TCEQ authorization.

The District's consulting engineer, Cobb Fendley & Associates, Inc. (the "Engineer") currently estimates that the aforementioned \$152,005,000 authorized unlimited tax bonds which remain unissued will be adequate to finance the construction of all waterworks, wastewater, and drainage facilities that will be necessary to provide service to all of the currently undeveloped portions of the District. See "DEVELOPMENT OF THE DISTRICT AND HOME AND APARTMENT CONSTRUCTION," "FUTURE DEVELOPMENT," and "THE SYSTEM." In addition to the components of the System that the District is financing with the proceeds of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt" and - "Use and Distribution of Bond Proceeds," "FUTURE DEVELOPMENT" and "THE SYSTEM."

If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

### **Competitive Nature of Houston Single-Family Residential Housing and Apartment Markets**

The housing and apartment markets in the Houston and La Porte area are very competitive, and the District can give no assurance that the building programs which are planned by the Builders or any future home or apartment builder(s) will be continued or completed. The respective competitive positions of the Developers and the Builders and any other developer(s), home builder(s) or apartment builder(s) which might attempt future development or home building or apartment projects in the District in the sale of developed lots or in the construction and sale of single-family residential units or apartments are affected by most of the factors discussed in this section. Such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

## **Continuing Compliance with Certain Covenants**

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

## **Approval of the Bonds**

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

## **Environmental Regulations**

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

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

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

### *Air Quality Issues*

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

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 developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a "serious" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. 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 is effective June 22, 2020, and is currently the subject of ongoing litigation.

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

### **Tax Payment Installments after Disaster**

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

### **Tropical Weather Events**

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

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

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.

### **Changes in Tax Legislation**

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

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

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with the Pandemic. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared the Pandemic 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 the Pandemic preparedness and mitigation. These include, for example, the issuance of Executive Orders, which, among other things, prohibit social gatherings of more than 10 people and orders the closure of schools throughout the state for certain designated time periods, which may be otherwise extended, modified, rescinded, or superseded by the Governor. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on slowing the spread of the Pandemic by limiting instances where the public can congregate or interact with each other, which affects economic conditions 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 conditions and financial markets worldwide and within Texas and the Houston area. Stock values and oil prices, in the U.S. and globally, have seen significant declines attributed in part to Pandemic concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

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

The District continues to monitor the spread of the Pandemic and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic 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.

### **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 single and multi-family residential and commercial property in the Houston area and could reduce or negatively affect property values or single and multi-family residential development or construction, or leasing of apartments 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.



## LEGAL MATTERS

### Legal Opinions

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, and all taxable property within the District is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount, based upon examination of a transcript of certified proceedings held incident to the issuance and authorization of the Bonds, and the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel for the District, to a like effect. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Bond Counsel's opinion also will address the matters described below under "TAX MATTERS."

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "Book-Entry-Only System" and "Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority" and - "Bond Counsel and General Counsel," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law, the provisions of the documents referred to therein, and conforms to the provisions of the order of the TCEQ approving the Bonds and to the requirements of the City of La Porte with respect to the sale of the Bonds. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P., Houston, Texas, serves as Disclosure Counsel to the District.

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.

### No-Litigation Certificate

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

## TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied 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 issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution 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, the District's Financial Advisor, and the Underwriter, with respect to matters solely within the knowledge of the District, the District's Financial Advisor, and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution 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.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments on interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the IRS. Additionally, backup withholding may apply to such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of, the Bonds.

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, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and taxpayers otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

## **Tax Accounting Treatment of Original Issue Discount Bonds**

The initial offering price of certain of the Bonds (the “Original Issue Discount Bonds”) is less than the stated redemption price at maturity. In such case, under existing law, (a) the difference between (i) the principal amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of an owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale, or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption “TAX MATTERS” generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds and should be considered in connection with the discussion in this portion of the Official Statement.) The foregoing discussion assumes, in reliance upon certain representations of the Underwriter, that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

The federal income tax consequences of the purchase, ownership, and redemption, sale, or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, redemption, sale, or other disposition of such Original Issue Discount Bonds.

## **Not Qualified Tax-Exempt Obligations**

The Bonds have **not** been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

## **NO MATERIAL ADVERSE CHANGE**

The obligations of the Underwriter to take up and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented, or amended through the date of sale. The rating of the Insurer’s creditworthiness by any rating agency does not and will not in any manner affect the District’s financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not and will not constitute a change, material or otherwise, in the District’s financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay for the Bonds.

## **OFFICIAL STATEMENT**

### **General**

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Developers, CSRP, Domain (see “DEVELOPERS”), the Tax Assessor/Collector and other sources believed to be reliable; however, no representation is made by the District as to the accuracy or completeness of the information contained herein, except as described below under “Certification as to Official Statement.” The summaries of the statutes, contracts, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The District’s financial statements for the fiscal year ended December 31, 2019, were audited McGrath & Co., PLLC, Certified Public Accountants, and have been included herein as “APPENDIX B.” McGrath & Co., PLLC, Certified Public Accountants, has agreed to the publication of such financial statements in this Official Statement.

### **Experts**

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” has been provided by Cobb, Fendley & Associates, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned “DISTRICT DEBT” and “TAX DATA” was provided by Assessments of the Southwest, Inc., and the Appraisal District. Such information has been included herein in reliance upon Assessments of the Southwest, Inc.'s authority as an expert in the field of tax collection and the Appraisal District’s authority as an expert in the field of tax assessing.

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

The District, acting by and through its Board of Directors in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions, and statements concerning entities other than the District, including

particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

### **Updating of Official Statement**

If, subsequent to the date of the Official Statement, to and including the date the Underwriters are no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), the District learns, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the “end of the underwriting period” as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB (hereinafter defined), but in no case less than 25 days after the “end of the underwriting period.”

### **CONTINUING DISCLOSURE OF INFORMATION**

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the SEC regarding the District’s continuing disclosure obligations because the District has not issued more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds as required by the exemption. As required by the exemption, in the Bond Resolution, 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 the Municipal Securities Rulemaking Board (the “MSRB”) or any successor to its functions as a repository through its Electronic Municipal Market Access (“EMMA”) system.

### **Annual Reports**

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District is found in “APPENDIX B” (the Audit). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District’s audit is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within the required time, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; 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 determination 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 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; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or 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. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (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 or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

#### **Availability of Information**

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Limitations and Amendments**

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

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

**Compliance With Prior Undertakings**

The District has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12 as this is its first issuance of bonds.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 561 as of the date shown on the first page hereof.

/s/ Laura Burlton  
President, Board of Directors  
Harris County Municipal  
Utility District No. 561

ATTEST:

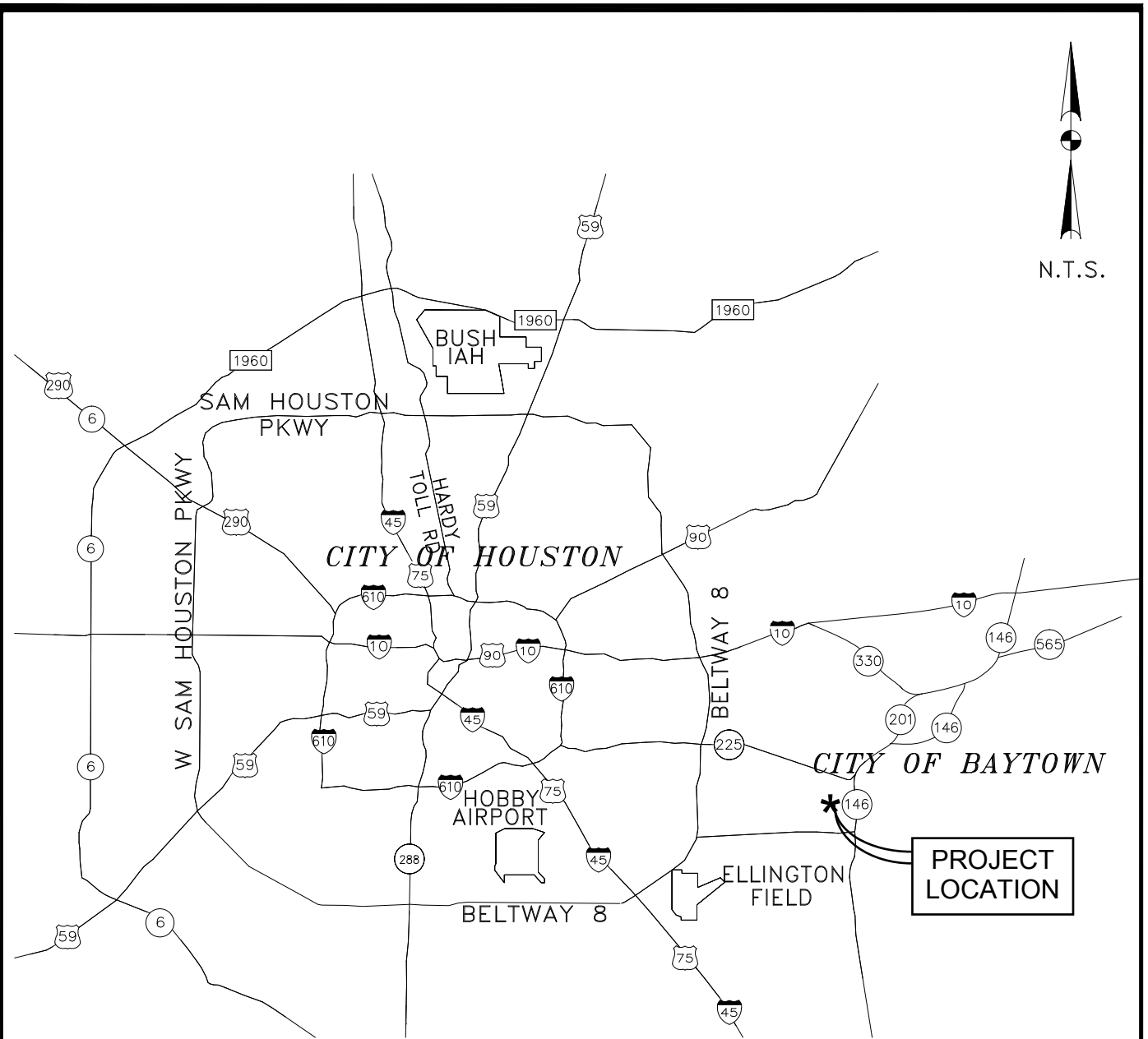
/s/ Claire Ludwig  
Secretary, Board of Directors  
Harris County Municipal  
Utility District No. 561





APPENDIX A

LOCATION MAP



VICINITY MAP

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 561

HARRIS COUNTY, TEXAS



TBPE Firm Registration No. 274  
TBPLS Firm Registration No. 100467  
13430 Northwest Freeway, Suite 1100  
Houston, Texas 77040  
713.462.3242 | fax 713.462.3262  
www.cobbhendley.com



**APPENDIX B**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 561**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**DECEMBER 31, 2019**



**HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 561**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**December 31, 2019**



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# McGRATH & CO., PLLC

*Certified Public Accountants*  
2500 Tanglewilde, Suite 340  
Houston, Texas 77063

## Independent Auditors' Report

Board of Directors  
Harris County Municipal Utility District 561  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and General Fund of Harris County Municipal Utility District 561, as of and for the period ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 principles 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 to provide a basis for our audit opinions.

***Board of Directors  
Harris County Municipal Utility District 561  
Harris County, Texas***

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of Harris County Municipal Utility District 561, as of December 31, 2019, and the respective changes in financial position thereof for the period then ended in conformity 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 information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*WCG & Co, P.C.*

Houston, Texas  
May 14, 2020

## **Management's Discussion and Analysis**

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## **Using this Annual Report**

Within this section of the financial report of Harris County Municipal Utility District 561 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section. Since the report is for an inception period, comparative data is not included. Financial reports for future years will include a comparative analysis of current year results to prior year data.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

## **Overview of the Financial Statements**

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Fund Balance Sheet* and the *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

## **Government-Wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific

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Management's Discussion and Analysis  
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purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

**Fund Financial Statements**

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

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

The District's net position at December 31, 2019, was negative \$3,747,968. The District's net position is negative because the District incurs debt to construct certain water, sewer, drainage, and road facilities which it conveys to the City of La Porte. A summary of the District's overall financial position, as of December 31, 2019, is as follows:

Current and other assets	\$ 119,297
Capital assets	2,431,169
Total assets	<u>2,550,466</u>
Current liabilities	22,116
Long-term liabilities	6,174,304
Total liabilities	<u>6,196,420</u>
Total deferred inflows of resources	<u>102,014</u>
Net position	
Net investment in capital assets	(55,507)
Unrestricted	(3,692,461)
Total net position	<u>\$ (3,747,968)</u>

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During the current period, the District's expenses exceeded its revenues, which resulted in a negative net position of \$3,747,968. A summary of the District's *Statement of Activities* is as follows:

Revenues	<u>\$ -</u>
Expenses	
Operating and administrative	91,963
Depreciation	<u>55,507</u>
Total expenses	<u>147,470</u>
Change in net position before other item	(147,470)
Other item	
Transfers to other governments	<u>(3,600,498)</u>
Change in net position	<u>(3,747,968)</u>
Net position, end of year	<u><u>\$ (3,747,968)</u></u>

**Financial Analysis of the District's General Fund**

The District's fund balance in the General Fund, as of December 31, 2019, was negative \$4,833. A summary of the General Fund's financial position as of December 31, 2019 is as follows:

Total assets	<u>\$ 119,297</u>
Total liabilities	\$ 22,116
Total deferred inflows	102,014
Total fund balance	<u>(4,833)</u>
Total liabilities, deferred inflows and fund balance	<u><u>\$ 119,297</u></u>

A summary of the General Fund's activities for the current period is as follows:

Total revenues	\$ -
Total expenditures	<u>(91,963)</u>
Revenues under expenditures	(91,963)
Other changes in fund balance	<u>87,130</u>
Net change in fund balance	<u><u>\$ (4,833)</u></u>

The District's expenditures exceeded revenues for the current year. The District relies on advances from its developer to supplement revenue shortfalls. Fund balance in the General Fund is the result of timing differences between developer advances and expenditures for which those advances are intended to fund.

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**General Fund Budgetary Highlights**

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$6,633 less than budgeted. The *Budgetary Comparison Schedule* on page 28 of this report provides variance information per financial statement line item.

**Capital Assets**

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at December 31, 2019, are summarized as follows:

Capital assets not being depreciated	
Land and improvements	<u>\$ 1,050,236</u>
Capital assets being depreciated	
Infrastructure	828,080
Landscaping improvements	<u>608,360</u>
	<u>1,436,440</u>
Less accumulated depreciation	
Infrastructure	(27,603)
Landscaping improvements	<u>(27,904)</u>
	<u>(55,507)</u>
Depreciable capital assets, net	<u>1,380,933</u>
Capital assets, net	<u><u>\$ 2,431,169</u></u>

Capital asset additions during the current year include the following:

- Clearing and grubbing for detention pond and right of way
- Detention pond to serve Morgan's Landing
- Morgan's Landing, Phase 1 and 2 – landscaping improvements

The District and the City of La Porte (the "City") have entered into an agreement which obligates the District to construct water, wastewater, storm drainage, and road facilities to serve the District and, when completed, to convey title to the facilities to the City (with the exception of certain detention facilities and parks and recreational facilities). The value of these assets is recorded as transfers to other governments upon completion of construction and trued-up when the developers are reimbursed. For



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the year ended December 31, 2019, capital assets in the amount of \$3,600,498 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 9.

**Long-Term Debt and Related Liabilities**

As of December 31, 2019, the District owes \$6,174,304 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 5, the District has an additional commitment in the amount of \$6,101,668 for projects under construction by the developers. As noted, the District will owe its developers for these projects upon completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developers are reimbursed.

At December 31, 2019, the District had \$161,505,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and the refunding of such bonds; \$19,620,000 for parks and recreational facilities and the refunding of such bonds; \$68,387,000 for road improvements and the refunding of such bonds.

**Next Year's Budget**

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected developer advances and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2019 Actual</u>	<u>2020 Budget</u>
Total revenues	\$ -	\$ -
Total expenditures	<u>(91,963)</u>	<u>(186,650)</u>
Revenues under expenditures	(91,963)	(186,650)
Other changes in fund balance	<u>87,130</u>	<u>188,000</u>
Net change in fund balance	(4,833)	1,350
Beginning fund balance		(4,833)
Ending fund balance	<u>\$ (4,833)</u>	<u>\$ (3,483)</u>

**Property Taxes**

For the 2019 tax year, the District has levied a maintenance tax rate of \$0.79 per \$100 of assessed value. The resulting tax levy is \$102,014 on the adjusted taxable value of \$12,913,165.

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## **Basic Financial Statements**

*Harris County Municipal Utility District 561*  
*Statement of Net Position and Governmental Fund Balance Sheet*  
*December 31, 2019*

	General Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash	\$ 10,673	\$ -	\$ 10,673
Taxes receivable	102,014		102,014
Prepaid items	6,610		6,610
Capital assets not being depreciated		1,050,236	1,050,236
Capital assets, net		1,380,933	1,380,933
Total Assets	<u>\$ 119,297</u>	<u>2,431,169</u>	<u>2,550,466</u>
<b>Liabilities</b>			
Accounts payable	\$ 22,116		22,116
Due to developers		6,174,304	6,174,304
Total Liabilities	<u>22,116</u>	<u>6,174,304</u>	<u>6,196,420</u>
<b>Deferred Inflows of Resources</b>			
Deferred property taxes	<u>102,014</u>		<u>102,014</u>
<b>Fund Balances/Net Position</b>			
<b>Fund Balances</b>			
Nonspendable	6,610	(6,610)	
Unassigned	(11,443)	11,443	
Total Fund Balances	<u>(4,833)</u>	<u>4,833</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 119,297</u>		
<b>Net Position</b>			
Net investment in capital assets		(55,507)	(55,507)
Unrestricted		(3,692,461)	(3,692,461)
Total Net Position		<u>\$ (3,747,968)</u>	<u>\$ (3,747,968)</u>

See notes to basic financial statements.

*Harris County Municipal Utility District 561*  
*Statement of Activities and Governmental Fund Revenues, Expenditures and*  
*Changes in Fund Balance*  
*For the Period Ended December 31, 2019*

	General Fund	Adjustments	Statement of Activities
<b>Revenues</b>	\$ -	\$ -	\$ -
<b>Expenditures/Expenses</b>			
Operating and administrative			
Professional fees	67,815		67,815
Contracted services	6,050		6,050
Administrative	15,057		15,057
Other	3,041		3,041
Depreciation		55,507	55,507
Total Expenditures/Expenses	<u>91,963</u>	<u>55,507</u>	<u>147,470</u>
<b>Revenues Under Expenditures/ Expenses</b>	(91,963)	(55,507)	(147,470)
<b>Other Financing Sources</b>			
Developer advances	87,130	(87,130)	
<b>Other Items</b>			
Transfers to other governments		<u>(3,600,498)</u>	<u>(3,600,498)</u>
<b>Net Change in Fund Balances</b>	(4,833)	4,833	
<b>Change in Net Position</b>		(3,747,968)	(3,747,968)
Fund Balance/Net Position			
<b>End of the year</b>	<u>\$ (4,833)</u>	<u>\$ (3,743,135)</u>	<u>\$ (3,747,968)</u>

See notes to basic financial statements.

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***Harris County Municipal Utility District 561  
Notes to Basic Financial Statements  
December 31, 2019***

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Harris County Municipal Utility District 561 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

**Creation**

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated January 10, 2019, and operates in accordance with Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code. The City of La Porte consented to the creation of the District on April 23, 2018. The Board of Directors held its first meeting on January 31, 2019.

The District is responsible for providing water, sewer, drainage, parks and recreational facilities and roads within the District. As further discussed in Note 9, the District transfers certain of these facilities to the City of La Porte for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

**Reporting Entity**

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

**Government-Wide and Fund Financial Statements**

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. The District uses only a General Fund to account for its operations. The District's principal financial resources are developer advances. Expenditures include costs associated with the daily operations of the District.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

**Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

**Prepaid Items**

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.



**Note 1 – Summary of Significant Accounting Policies (continued)**

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At December 31, 2019, an allowance for uncollectible accounts was not considered necessary.

**Capital Assets**

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of landscaping improvements and drainage facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	30 years
Landscaping improvements	20 years

The District’s detention facilities are considered improvements to land and are non-depreciable.

**Deferred Inflows and Outflows of Financial Resources**

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred inflows of financial resources at the government-wide level consist of the 2019 property tax levy, which was levied to finance the 2020 fiscal year.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Net Position – Governmental Activities**

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - deficit fund balance in the General Fund.

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developers; the value of capital assets transferred to the City of La Porte, and the value of capital assets for which the developers have not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

***Harris County Municipal Utility District 561  
Notes to Basic Financial Statements  
December 31, 2019***

**Note 2 – Adjustment from Governmental to Government-wide Basis**

**Reconciliation of the *Governmental Fund Balance Sheet* to the *Statement of Net Position***

Total fund balance, governmental funds	\$ (4,833)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Historical cost	\$ 2,486,676
Less accumulated depreciation	<u>(55,507)</u>
Change due to capital assets	2,431,169
Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	
	(6,174,304)
Total net position - governmental activities	<u><u>\$ (3,747,968)</u></u>

**Reconciliation of the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance* to the *Statement of Activities***

Net change in fund balances - total governmental funds	\$ (4,833)
In the <i>Statement of Activities</i> , the cost of capital assets is charged to depreciation expense over the estimated useful life of the asset.	
	(55,507)
Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the <i>Statement of Net Position</i> .	
	(87,130)
As discussed in Note 9, the District conveys certain capital assets to the City of La Porte upon completion of construction. Since these capital assets are funded by the developer, financial resources are not expended in the fund financial statements; however, in the <i>Statement of Activities</i> , these amounts are reported as transfers to other governments.	
	(3,600,498)
Change in net position of governmental activities	<u><u>\$ (3,747,968)</u></u>

### **Note 3 – Deposits and Investments**

#### **Deposit Custodial Credit Risk**

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

#### **Investments**

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or 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, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

*Harris County Municipal Utility District 561*  
*Notes to Basic Financial Statements*  
*December 31, 2019*

**Note 4 – Capital Assets**

As of December 31, 2019, the District’s capital assets consisted of the following:

Capital assets not being depreciated	
Land and improvements	<u>\$ 1,050,236</u>
Capital assets being depreciated	
Infrastructure	828,080
Landscaping improvements	<u>608,360</u>
	<u>1,436,440</u>
Less accumulated depreciation	
Infrastructure	(27,603)
Landscaping improvements	<u>(27,904)</u>
	<u>(55,507)</u>
Subtotal depreciable capital assets, net	<u>1,380,933</u>
Capital assets, net	<u>\$ 2,431,169</u>

**Note 5 – Due to Developers**

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, and parks and recreational facilities, and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District’s developers have also advanced funds to the District for operating expenses.

As of December 31, 2019, the estimated amount due to developers consists of the following:

Developer funded construction costs	\$ 6,087,174
Developer operating advances	<u>87,130</u>
Due to developers, end of year	<u>\$ 6,174,304</u>

***Harris County Municipal Utility District 561  
Notes to Basic Financial Statements  
December 31, 2019***

**Note 5 – Due to Developers (continued)**

In addition, the District will owe the developers approximately \$6,101,668, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Bay Area Boulevard			
Paving and drainage improvements	\$ 1,018,370	\$ 75,938	\$ 942,432
Traffic signal installation	264,627		264,627
Morgan's Landing			
Collector Road - water, sewer and drainage	332,009	21,440	310,569
Phase 1 - landscaping	870,274	567,738	302,536
Section 2 - water, sewer and drainage	302,879	233,624	69,255
Section 4 - water, sewer and drainage	1,267,075	1,095,769	171,306
Section 6 - water, sewer and drainage	336,056	243,014	93,042
Section 7 - water, sewer and drainage	592,439	467,895	124,544
Section 8 - water, sewer and drainage	1,117,939	889,920	228,019
	<u>\$ 6,101,668</u>	<u>\$ 3,595,338</u>	<u>\$ 2,506,330</u>

**Note 6 – Long-Term Debt**

At December 31, 2019, the District had authorized but unissued bonds in the amount of \$161,505,000 for water, sewer, and systems and the refunding of such bonds; \$19,620,000 for park and recreational facilities and the refunding of such bonds; and \$68,387,000 for road improvements and the refunding of such bonds.

**Note 7 – Property Taxes**

On May 4, 2019 the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and a road maintenance tax limited to \$0.25 per \$100 of assessed value. The District has not levied a road maintenance tax.

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

**Note 7 – Property Taxes (continued)**

Property taxes levied each October are intended to finance the next fiscal year and are, therefore, not considered available for the District's use during the current fiscal year. Consequently, the full 2019 tax levy in the amount of \$102,014 is reported as deferred inflows on the government-wide *Statement of Net Position*. These amounts will be recognized as revenue in 2020.

**Note 8 – Transfers to Other Governments**

In accordance with an agreement between the District and the City of La Porte (the "City"), the District transfers certain facilities to the City (see Note 9). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended December 31, 2019, the District reported transfers to other governments in the amount of \$3,600,498 for projects completed and transferred to the City.

**Note 9 – Utility Agreement with the City of La Porte**

On April 23, 2018, the District's developer, on behalf of the District, entered into an Amended and Restated Utility Agreement (the "Utility Agreement") with the City of La Porte (the "City") for the purposes of providing water distribution, wastewater collection, storm sewer and drainage, recreational, and road facilities (the "System") to serve development within the District. As the System is acquired or constructed, the District will convey the System (except for certain detention facilities and parks and recreational facilities) to the City but will reserve a security interest in the System. The term of the Utility Agreement is 30 years, unless otherwise previously terminated pursuant to some term or condition of the agreement or upon dissolution of the District.

The City will supply water and sewer services to the District's residents at rates equal and uniform to those charged to similar users within the City.

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. The City and District have agreed that no portion of City taxes to be collected from the taxpayers of the District are required to be rebated to the District or use to finance elsewhere in the City.

**Note 10 – 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 personal injuries. The risk of loss is covered by commercial insurance. Settlement amounts have not exceeded insurance coverage for the current period.



**Note 11 – Economic Dependency**

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and to pay property taxes will directly affect the District's ability to meet its future obligations.

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## **Required Supplementary Information**

*Harris County Municipal Utility District 561  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Period Ended December 31, 2019*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>	\$ -	\$ -	\$ -
<b>Expenditures</b>			
Operating and administrative			
Professional fees	150,000	67,815	82,185
Contracted services	7,500	6,050	1,450
Administrative	19,700	15,057	4,643
Other	1,000	3,041	(2,041)
Total Expenditures	<u>178,200</u>	<u>91,963</u>	<u>86,237</u>
<b>Revenues Under Expenditures</b>	(178,200)	(91,963)	86,237
<b>Other Financing Sources</b>			
Developer advances	<u>180,000</u>	<u>87,130</u>	<u>(92,870)</u>
<b>Net Change in Fund Balance</b>	1,800	(4,833)	(6,633)
<b>Fund Balance</b>	-	-	-
<b>End of the year</b>	<u>\$ 1,800</u>	<u>\$ (4,833)</u>	<u>\$ (6,633)</u>

**Budgets and Budgetary Accounting**

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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## **Texas Supplementary Information**

**Harris County Municipal Utility District 561**

**TSI-1. Services and Rates**

**December 31, 2019**

1. Services provided by the District During the Fiscal Year:

- |   |   |  |  |
|---|---|--|--|
| <input type="checkbox"/> Retail Water       | <input type="checkbox"/> Wholesale Water      | <input type="checkbox"/> Solid Waste / Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater  | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control         | <input type="checkbox"/> Irrigation          |
| <input type="checkbox"/> Parks / Recreation | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Roads                 | <input type="checkbox"/> Security            |
- Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- Other (Specify): Potable water, wastewater and storm sewer accepted by the City of La Porte for operation and maintenance.

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)


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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	<u>N/A</u>	<u>N/A</u>	<u>N</u>	<u>                    </u>	<u>                    </u> to <u>                    </u>
				<u>                    </u>	<u>                    </u> to <u>                    </u>
				<u>                    </u>	<u>                    </u> to <u>                    </u>
				<u>                    </u>	<u>                    </u> to <u>                    </u>
Wastewater:	<u>N/A</u>	<u>- 0 -</u>	<u>Y</u>	<u>                    </u>	<u>                    </u> to <u>                    </u>

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water N/A Wastewater N/A

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered	<u>                    </u>	<u>                    </u>	x 1.0	<u>                    </u>
Less than 3/4"	<u>                    </u>	<u>                    </u>	x 1.0	<u>                    </u>
1"	<u>                    </u>	<u>                    </u>	x 2.5	<u>                    </u>
1.5"	<u>                    </u>	<u>                    </u>	x 5.0	<u>                    </u>
2"	<u>                    </u>	<u>                    </u>	x 8.0	<u>                    </u>
3"	<u>                    </u>	<u>                    </u>	x 15.0	<u>                    </u>
4"	<u>                    </u>	<u>                    </u>	x 25.0	<u>                    </u>
6"	<u>                    </u>	<u>                    </u>	x 50.0	<u>                    </u>
Total Water	<u>                    </u>	<u>                    </u>		<u>                    </u>
Total Wastewater	<u>                    </u>	<u>                    </u>	x 1.0	<u>                    </u>

See accompanying auditor's report.





*Harris County Municipal Utility District 561  
TSI-2 General Fund Expenditures  
For the Period Ended December 31, 2019*

Professional fees	
Legal	<u>\$ 67,815</u>
Contracted services	
Bookkeeping	<u>6,050</u>
Administrative	
Directors fees	7,650
Printing and office supplies	442
Insurance	3,209
Other	<u>3,756</u>
	<u>15,057</u>
Other	<u>3,041</u>
Total expenditures	<u><u>\$ 91,963</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Harris County Municipal Utility District 561*  
*TSI-4. Taxes Levied and Receivable*  
*December 31, 2019*

	Maintenance Taxes
2019 Tax Levy	<u>\$ 102,014</u>
Tax collections:	
Current year	<u>-</u>
Taxes Receivable, End of Year	<u>\$ 102,014</u>
Taxes Receivable, By Years	
2019	<u>\$ 102,014</u>
	<u>2019</u>
Property Valuations:	
Land	<u>\$ 12,913,165</u>
Tax Rates per \$100 Valuation:	
Maintenance tax rates*	<u>\$ 0.79</u>
Adjusted Tax Levy:	<u>\$ 102,014</u>
Percentage of Taxes Collected to Taxes Levied ***	<u>0.00%</u>

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 4, 2019

\*\* Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on May 4, 2019

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

See accompanying auditors' report.

*Harris County Municipal Utility District 561*  
*TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund*  
*For the Current Period*

	<u>Amounts</u>	<u>Percent of Fund Total Revenues</u>
	<u>2019</u>	<u>2019</u>
Revenues	<u>\$ -</u>	<u>N/A</u>
Expenditures		
Operating and administrative		
Professional fees	67,815	N/A
Contracted services	6,050	N/A
Administrative	15,057	N/A
Other	3,041	N/A
Total Expenditures	<u>91,963</u>	<u>N/A</u>
Revenues Under Expenditures	<u>\$ (91,963)</u>	<u>N/A</u>

See accompanying auditors' report.

***Harris County Municipal Utility District 561  
TSI-8. Board Members, Key Personnel and Consultants  
For the Year Ended December 31, 2019***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX, 77027  
 District Business Telephone Number: (713) 860-6400  
 Submission Date of the most recent District Registration Form  
 (TWC Sections 36.054 and 49.054): May 29, 2019  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Laura Burlton	5/2019 - 5/2020	\$ 1,650	\$ 92	President
Mary Starr	5/2019 - 2/2022	1,650	327	Vice President
Claire Ludwig	5/2019 - 5/2020	1,800	321	Secretary
Karina Moreno	5/2019 - 5/2022	1,050	81	Assistant Secretary
Brad Durrett	5/2019 - 5/2022	1,500	291	Assistant Vice President
<b>Consultants</b>				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	1/2019	\$ 61,207		Attorney
Myrtle Cruz, Inc.	3/2019	5,721		Bookkeeper
Assessments of the Southwest, Inc.	3/2019			Tax Collector
Harris County Appraisal District	Legislation			Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	4/2019			Delinquent Tax Attorney
Cobb, Fendley & Associates, Inc.	3/2019			Engineer
Kudela & Weinheimer, Inc	1/2019			Landscape Architect
McGrath & Co., PLLC	12/2019			Auditor
Rathmann & Associates, L.P.	3/2019			Financial Advisor

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

See accompanying auditors' report.



APPENDIX C

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

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

MEMBER: [NAME OF MEMBER]

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

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

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER



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

Email:

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

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN





