

OFFICIAL STATEMENT DATED APRIL 1, 2021

IN THE OPINION OF BOND COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District has designated the Bonds as "qualified tax-exempt obligations." See "TAX MATTERS - Qualified Tax-Exempt Obligations."

NEW ISSUE - Book-Entry Only

**Ratings: S&P Global Ratings (AGM Insured)...."AA" (stable outlook)
S&P Global Ratings (Underlying) "A"(stable outlook)
See "BOND INSURANCE" and "RATINGS" herein**

\$4,350,000
BILMA PUBLIC UTILITY DISTRICT
(A Political Subdivision of the State of Texas located within Harris County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated: May 1, 2021

Due: November 1, as shown below

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 May 1, 2021, and is payable on November 1, 2021, and on each May 1 and November 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 November 1, 2028, are subject to redemption prior to maturity at the option of Bilma Public Utility District (the "District"), as a whole or in part, on November 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 Assured Guaranty Municipal Corp. ("AGM" or the "Insurer").



See Maturity and Pricing Schedule on the inside cover

The proceeds of the sale of the Bonds will be applied to refund certain outstanding bonds of the District and to pay the costs of issuance of the Bonds. See "PLAN OF FINANCING — Use of Bond Proceeds." The Bonds, when issued, constitute valid and legally binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment."

The 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 Houston, 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 Houston, 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 Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds is expected on or about May 5, 2021, at The Bank of New York Mellon Trust Company, N.A., Dallas Texas.

MATURITY SCHEDULE

CUSIP Prefix (a): 090197

\$3,735,000 Serial Bonds

<u>Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (b)</u>	<u>CUSIP Suffix (a)</u>
2022	\$ 20,000	2.00%	0.24%	FC3
2023	970,000	2.00	0.29	FD1
2024	10,000	2.00	0.56	FE9
2025	10,000	2.00	0.74	FF6
2026	15,000	2.00	0.89	FG4
****	****			
2029 (c)	630,000	2.00	1.33	FJ8
2030 (c)	660,000	2.00	1.53	FK5
2031 (c)	690,000	2.00	1.68	FL3
2032 (c)	730,000	2.00	1.78	FM1

\$615,000 Term Bonds, Due November 1, 2028(c)(d), CUSIP Suffix FH2 (a), Interest Rate 2.00% (Yield 1.15%)(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 May 1, 2021, is to be added to the price.
- (c) Subject to optional redemption as described on the front cover.
- (d) Subject to mandatory redemption by lot or other customary method of random selection on November 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, audited financial statements, 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 Radcliffe Bobbitt Adams Polley PLLC, America Tower, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019 upon payment of duplication costs.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or 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 Underwriters (as defined herein), and thereafter only as described under "OFFICIAL STATEMENT - Updating of Official Statement."

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

Neither the District nor the Underwriters make 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 "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important investment considerations 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.

Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY.”

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. and RBC Capital Markets, LLC (“RBC”) (together referred to herein as the “Underwriters”) have agreed, pursuant to a Bond Purchase Agreement, to purchase the Bonds from the District for \$4,448,526.25 (an amount equal to the principal amount of the Bonds, less an Underwriters’ discount of \$31,189.50, plus an original issue premium on the Bonds of \$129,715.75), plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriters to purchase the Bonds is subject to the conditions contained in the Bond Purchase Agreement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

RBC has provided the following information for inclusion in this Official Statement: RBC and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBC and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBC and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the District. RBC and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBC and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bond house, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriters at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters 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 UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT 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, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

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

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

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At December 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,864 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$940 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,112 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Merger of MAC into AGM

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company ("AGC") (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021).

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

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

Miscellaneous Matters

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

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 "RATINGS" herein.

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 Underwriters have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. 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.

RATINGS

S&P Global Ratings ("S&P") a business unit of Standard & Poor's Financial Services LLC. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest ratings).

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the Bonds assigned by S&P is "A" (stable outlook).

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

The District is not aware of any ratings assigned the Bonds other than the ratings of S&P. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

The Issuer Bilma Public Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue..... Bilma Public Utility District Unlimited Tax Refunding Bonds, Series 2021, in the aggregate principal amount of \$4,350,000 are dated May 1, 2021. Interest accrues from May 1, 2021, and is payable on November 1, 2021, and on each May 1 and November 1 thereafter until maturity or prior redemption. \$3,735,000 of the Bonds are issued as serial bonds maturing on November 1 in each of the years 2022 through 2026, both inclusive, and 2029 through 2031, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. \$615,000 of the Bonds are issued as term bonds maturing on November 1, 2028 (collectively, the “Term Bonds”). The Bonds, including the Term Bonds, scheduled to mature on and after November 1, 2028, are subject to redemption, in whole or in part, prior to their scheduled maturities, on November 1, 2026, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof, so called for redemption, plus accrued interest to the date of redemption. In addition to being subject to optional redemption, the Term Bonds are also subject to mandatory sinking fund redemption on November 1 in the years and in the amounts as is more completely described in this Official Statement under the caption “THE BONDS - Redemption Provisions,” and are subject to reduction by prior cancellation and optional redemption. The Bonds will be issued pursuant to a Bond Order (the “Bond Order”) adopted by the Board of Directors of the District. The Bonds are being issued under the authority of Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207 of the Texas Government Code, as amended.

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 against all taxable property located within the District. See “THE BONDS - Source of Payment,” “TAXDATA - Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates.” The Bonds are obligations of the District, and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District.
Other Characteristics	The Bonds are issued in fully registered form, without coupons, in the denomination of \$5,000 each, or any integral multiple thereof.
Use of Bond Proceeds	Proceeds of the sale of the Bonds will be applied to refund \$3,300,000 in principal amount of the District’s Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (the “Series 2012 Bonds”) and \$950,000 in principal amount of the District’s Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”). The Series 2012 Bonds and Series 2013 Refunding Bonds that are being refunded by the Bonds are hereinafter referred to as the “Refunded Bonds.” The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Refunded Bonds will be redeemed on their redemption date, at a price equal to the principal amount thereof plus accrued interest from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the “Paying Agent for the Refunded Bonds”). The sale of the Bonds and the refunding of the Refunded Bonds will (i) reduce the District’s debt service payments, and (ii) provide present value savings in the District’s debt service.
Payment Record.....	The District has, in addition to the Series 2012 Bonds, and Series 2013 Refunding Bonds also issued Unlimited Tax Bonds, Series 1981 (the “Series 1981 Bonds”); Unlimited Tax Bonds, Series 1985 (the “Series 1985 Bonds”), Unlimited Tax Bonds, Series 1994 (the “Series 1994 Bonds”), Unlimited Tax Bonds, Series 1996 (the “Series 1996 Bonds”), Unlimited Tax Bonds, Series 1999 (the “Series 1999 Bonds”), Unlimited Tax Bonds, Series 2003 (the “Series 2003 Bonds”), Unlimited Tax Bonds, Series 2006 (the “Series 2006 Bonds”), Unlimited Tax Bonds, Series 2009 (the “Series 2009 Bonds”) Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018 (the “Series 2018 Bonds”) to finance water supply and distribution, wastewater collection and storm drainage facilities (the “System”). The District also has issued Unlimited Tax Refunding Bonds, Series 1992 (the “Series 1992 Refunding Bonds”), Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Refunding Bonds”), Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”), and Unlimited Tax Refunding Bonds, Series 2016 (the “Series 2016 Refunding Bonds”) to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all

of such bonds previously issued by the District as the “Prior Bonds.” The District has never defaulted in the timely payment of principal of or interest on the Prior Bonds. Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is \$16,465,000 (the “Outstanding Bonds”). After issuance of the Bonds, the aggregate principal amount of the District's Outstanding Bonds not heretofore paid by the District, less the Refunded Bonds, will be \$12,215,000 (the “Remaining Outstanding Bonds”) and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be \$16,565,000. In addition to the components of the System that the District has financed with the proceeds of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of bonds, if any, to be issued by the District in the future. See “THE BONDS - Authority for Issuance,” and - “Issuance of Additional Debt,” “THE SYSTEM,” and “INVESTMENT CONSIDERATIONS - Future Debt.”

Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS - Qualified Tax-Exempt Obligations.”
Authorized But Unissued Bonds.....	\$9,695,635 bonds for waterworks, wastewater and drainage facilities, \$8,500,000 for recreational facilities and \$29,560,000 for refunding purposes will remain authorized but unissued after issuance of the Bonds. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” “THE SYSTEM” and “INVESTMENT CONSIDERATIONS-Future Debt.”
Municipal Bond Insurance	Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”
Municipal Bond Rating	S&P Global Ratings (AGM Insured) “AA” (stable outlook). S&P Global Ratings (Underlying) “A” (stable outlook). See “BOND INSURANCE” and “RATINGS.”
Legal Opinions.....	Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
Verification Agent	Robert Thomas CPA, LLC. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.”

THE DISTRICT

Description	Bilma Public Utility District (the “District”), a political subdivision of the State of Texas, was created by an act of the 62nd Legislature of Texas, Regular Session, 1971. When created, the District contained approximately 381 acres of land. Subsequent annexations of land have resulted in the District's present size of approximately 682.1 acres of land. The District is located approximately 25 miles
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northwest of the central business district of Houston, Texas. The District is located in northwestern Harris County, approximately 3 miles north of FM 1960, and approximately 4 miles west of Interstate Highway 45. Spring-Cypress Road forms the north boundary of a portion of the District, and Louetta Road forms the southern boundary of a portion of the District. Spring Creek Forest Public Utility District bounds the District to the west. The District consists of three non-contiguous tracts of approximately 412, 237, and 34 acres. The approximate 412 acre portion of the District is located approximately 2,700 feet west of the intersection of Kuykendahl Road and Louetta Road. Kuykendahl Road forms the west boundary and Louetta Road forms the south boundary of the approximate 237 acre portion of the District. The approximate 34 acre portion of the District is located approximately 6,600 feet west of the intersection of Kuykendahl Road and Louetta Road with Louetta Road forming the north boundary and Spring Gully forming the west boundary thereof. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston, Texas. The District is located within Harris County, Texas, and the Klein Independent School District. See “THE DISTRICT - Description” and “APPENDIX A - LOCATION MAP.”

Authority

The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - General.”

Development, Home Construction.....

Single-family residential development in the District is complete. As of March 1, 2021, the District contained 1,760 single-family homes, all of which have been sold to homeowners. Development activity which has been conducted to date within the District includes the completion of the development of an aggregate of approximately 646.4 acres of land which include 1,782 single-family residential building sites located in Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2, and Country Lakes Estates Village, Sections 1 and 2. The District also contains two platted unrestricted reserves on which an office building containing approximately 8,600 square feet of building area (approximately 1 acre) and a skating rink (approximately 2.1 acres) have been constructed, an approximately 2.0 acre site on which a retail store has been constructed, an approximately 0.57 acre site on which a restaurant has been constructed, an approximately 2 acre site on which the Addison Funeral Home has been constructed, a site on which the Klein Independent School District has constructed an elementary school (approximately 14.7 acres), an approximately 1 acre site on which the Ponderosa Volunteer Fire Department has constructed the Ponderosa Fire Station No. 62, a site on which a church has been

constructed (approximately 2.7 acres), and an approximately 2 acre site on which a Stripes gas station has been constructed. There is an additional approximately 9.4 acre tract of commercial property located in the District along Kuykendahl Road that has been developed with wastewater and water facilities to the perimeter of such tract that is available for the construction of above-ground improvements, on approximately 1 acre of which a Shell gas station has been constructed. The remaining acreage in the District consists of recreational sites (which include recreational centers, parks, walking trails and open spaces), a drainage channel right-of-way owned by the Harris County Flood Control District, District facility sites, road rights-of-way, or is otherwise not available for future development.

The District financed the acquisition or construction of underground water distribution, wastewater collection and storm drainage facilities to serve Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2 and Country Lake Estates Village, Sections 1 and 2 with proceeds of the Prior Bonds. In addition to the acquisition or construction of improvements to the System that the District has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the District's cost of acquisition or construction of additional improvements to the System with bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance," - "Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM - Description."

Infectious Disease Outbreak (COVID-19) ...

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

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic 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 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 partially prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2020 Assessed Valuation	\$ 510,682,257 (a)
(As of January 1, 2020)	
See "TAX DATA" and "TAXING PROCEDURES"	
Direct Debt:	
Remaining Outstanding Bonds	\$ 12,215,000
The Bonds	<u>4,350,000</u>
Total	\$ 16,565,000 (b)
Estimated Overlapping Debt	\$ <u>26,894,025</u>
Total Direct and Estimated Overlapping Debt	\$ 43,459,025
Direct Debt Ratio	
: as a percentage of 2020 Assessed Valuation.....	3.24 %
Direct and Overlapping Debt Ratio	
: as a percentage of 2020 Assessed Valuation.....	8.51 %
Debt Service Fund Balance Estimated as of the Date of Delivery of the Bonds	\$ 2,381,660 (c)
General Fund Balance as of March 4, 2021.....	\$ 6,904,372
2020 Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax	\$ 0.34
Maintenance Tax	<u>0.18</u>
Total	\$ 0.52 (d)
Average Percentage of Total Tax Collections (2010-2019) as of February 28, 2021.....	99.89 %
Percentage of Tax Collections of 2020 Levy as of February 28, 2021 (In process of collection)	95.44 %
Average Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2021-2034).....	\$ 1,444,215
Maximum Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2034).....	\$ 1,495,575
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2021-2034) at 95% Tax Collections	
Based Upon 2020 Assessed Valuation.....	\$ 0.30
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds and the Remaining Outstanding Bonds (2034) at 95% Tax Collections	
Based Upon 2020 Assessed Valuation.....	\$ 0.31

Number of Single Family Homes

1,760

- (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"). See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT." In addition to the components of the System that the District has financed with the proceeds of the Prior 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 "INVESTMENT CONSIDERATIONS - Future Debt."
- (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund. Such fund balance reflects the timely payment by the District of the debt service requirements on the Outstanding Bonds that are due on May 1, 2021. The District's remaining debt service payments for 2021, which are due on November 1, 2021, total \$1,235,084, and consist of the payment of principal of and interest on the Remaining Outstanding Bonds and the Bonds.
- (d) The District levied a debt service tax in the amount of \$0.34 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.18 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2020 tax levies of all units of government which levy taxes against the property located within the District, plus the 2020 tax of the District is \$2.652627 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

\$4,350,000
BILMA PUBLIC UTILITY DISTRICT
UNLIMITED TAX REFUNDING BONDS
SERIES 2021

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Bilma Public Utility District (the “District”) of its Unlimited Tax Refunding 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, and Chapter 1207, Texas Government Code, as amended, and an order authorizing issuance of the Bonds (the “Bond Order”) 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 Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019, upon payment of duplication costs. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

General

The Bonds are dated and bear interest from May 1, 2021, with interest payable on November 1, 2021, and on each May 1 and November 1 thereafter until maturity or prior redemption. The Bonds are issued in fully registered form, without coupons, in the denomination of \$5,000 each, or any integral multiple thereof. \$3,735,000 of the Bonds are issued as serial bonds maturing on November 1 in each of the years 2022 through 2026, both inclusive, and 2029 through 2031, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. \$615,000 of the Bonds are issued as term bonds maturing on November 1, 2028 (collectively, the “Term Bonds”). Principal of the Bonds will be payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas, or any successor paying agent/registrar (the “Paying Agent,” “Paying Agent/Registrar,” or “Registrar”). Interest on the Bonds will be payable by check or draft, dated as of the interest payment date, and mailed by the Registrar to Registered Owners as shown on the records of the Registrar (“Registered Owners”) at the close of business on the 15th calendar day of the month next preceding the interest payment date (the “Record Date”).

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 of 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 S&P Global rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 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 the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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. 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 or maturity 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, or 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

Optional Redemption

The Bonds, including the Term Bonds (hereinafter defined), that mature on and after November 1, 2028, shall be subject to redemption and payment prior to their scheduled maturities at the option of the District, in whole or from time to time in part, on November 1, 2026, or on any date thereafter, at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption. Notice of redemption is required to be mailed by the Registrar at least thirty (30) days prior to the redemption date by sending such notice by first class mail to each of the Registered Owners of the Bonds to be redeemed in whole or in part at the address shown on the bond register.

If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District in denominations of \$5,000 or any integral multiple thereof within any one maturity and if fewer than all of the Bonds within a certain maturity are to be redeemed, the Paying Agent/Registrar shall designate the Bonds within such maturity to be redeemed by method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). In the event the book-entry-only system is discontinued, 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 Paying Agent/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.

Mandatory Redemption

The Bonds maturing on November 1, 2028 (the “Term Bonds”) are subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on November 1 in the years and in the amounts set forth below, subject to reduction by the amount of any prior optional redemption or cancellation, at a redemption price of par plus accrued interest to the date of redemption:

\$615,000 Term Bonds Maturing on November 1, 2028	
<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
November 1, 2027	\$ 15,000
November 1, 2028 (maturity)	600,000

The principal amount of the Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of any redemption will be given by the Registrar at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register.

Replacement of Registrar

Provision is made in the Bond Order for replacement of the Registrar. If the Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Registrar. In order to act as 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

At elections held within the District on August 12, 1978, May 16, 1981, April 2, 1983, April 15, 1986, the voters of the District authorized the issuance of \$40,000,000 unlimited tax bonds. At an election held on May 2, 2007, within the District, the voters of the District authorized issuance of \$20,000,000 unlimited tax or unlimited tax and revenue bonds, in addition to the then remaining \$4,690,000 authorized but unissued unlimited tax bonds from the prior elections of May 16, 1981, April 2, 1983, and April 15, 1986. All of the aforementioned authorized bonds may be issued to acquire or construct waterworks, sanitary sewer and drainage facilities. At an election held on November 5, 2019, within the District, the voters of the District authorized issuance of \$8,500,000 unlimited tax bonds for recreational facilities. \$9,695,635 bonds remain authorized but unissued for waterworks, sanitary sewer and drainage facilities, of which \$155,635 are unlimited tax bonds and \$9,540,000 may be either unlimited tax or unlimited tax and

revenue bonds. In addition, at the May 2, 2007 election, the voters also authorized the issuance of \$29,660,000 bonds for refunding purposes, \$29,560,000 of which will remain authorized but unissued after the issuance of the Bonds. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ (defined below). See "Issuance of Additional Debt" below.

Source of Payment

The Bonds (together with the Remaining Outstanding Bonds, as defined herein, and such additional tax bonds as may hereafter be issued by the District) are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, and Registrar 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, on such additional bonds payable from taxes which may 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 Houston, Texas, or any entity other than the District.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission"), necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$60,000,000 unlimited tax bonds for water, sanitary sewer and drainage facilities, \$8,500,000 for recreational facilities, and could authorize additional amounts. Following the issuance of the Bonds, \$9,695,635 unlimited tax bonds for construction of water distribution, wastewater collection and storm drainage facilities and \$8,500,000 for recreational facilities will remain authorized but unissued for such purpose. The District's voters also have authorized \$29,660,000 unlimited tax bonds for refunding purposes, \$29,560,000 of which will remain unissued after the issuance of the Bonds. The Bond Order 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 has financed with portions of the proceeds of the sale of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance" and - "Issuance of Additional Debt," "THE SYSTEM," and "INVESTMENT CONSIDERATIONS - Future Debt."

Based on present engineering cost estimates and on development plans supplied by the Developers, in the opinion of the District's consulting engineer, Jones & Carter, Inc. (the "Engineer"), the \$9,695,635 authorized but unissued bonds will be adequate to finance the extension of components of the System to serve all of the remaining undeveloped portions of the District. See "DEVELOPMENT AND HOME CONSTRUCTION," "FUTURE DEVELOPMENT," and "THE SYSTEM."

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) approval of the park project and bonds by the TCEQ; and (b) 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. Voters of the District have authorized the issuance of \$8,500,000 in bonds for construction of recreational facilities or for refunding bonds issued for such purposes.

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 facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Annexation and Consolidation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “ - Strategic Partnership” below. If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such an agreement with one or more other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District. However, no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Registered Owners' Remedies

Pursuant to Texas law, the Bond Order 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 Order 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 Order, 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 Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. 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. Certain traditional legal remedies also may not be available.

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.

Amendments to the Bond Order

The Bond Order contains provisions that the District may, without consent of or notice to any Registered Owner of the Bonds, amend, change or modify the Bond Order as may be required (a) by the provisions thereof, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (c) in connection with any other changes which is not to the prejudice of the Registered Owners of the Bonds. Except for such amendments, changes, or modifications, the District shall not amend, change or modify the Bond Order in any manner without the consent of the Registered Owners of the Bonds as described in the Bond Order.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place 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 noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which 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.

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 Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

PLAN OF FINANCING

Use of Bond Proceeds

Proceeds of the sale of the Bonds, together with other lawfully available funds of the District, will be applied to refund \$3,300,000 in principal amount of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (the "Series 2012 Bonds") and \$950,000 in principal amount of the District's Unlimited Tax Refunding Bonds, Series 2013 (the "Series 2013 Refunding Bonds"). The Series 2012 Bonds and Series 2013 Refunding Bonds that are being refunded by the Bonds are hereinafter referred to as the "Refunded Bonds." The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Refunded Bonds will be redeemed on their redemption date, at a price equal to the principal amount thereof plus accrued interest from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the "Paying Agent for the Refunded Bonds"). The sale of the Bonds and the refunding of the Refunded Bonds will (i) reduce the District's debt service payments, and (ii) provide present value savings in the District's debt service.

The Refunded Bonds

The principal amounts and maturity dates (or mandatory redemption amounts and dates, as applicable) of the Refunded Bonds are set forth below.

<u>Maturity Date</u>	<u>Series 2012 Bonds Principal Amount Refunded</u>	<u>Series 2013 Refunding Bonds Principal Amount Refunded</u>
11/1/2023		\$950,000
11/1/2024		
11/1/2025		
11/1/2026		
11/1/2027		
11/1/2028	\$585,000	
11/1/2029	620,000	
11/1/2030	660,000	
11/1/2031	695,000	
11/1/2032	<u>740,000</u>	
	\$3,300,000	<u>\$950,000</u>
Redemption Date:	5/6/21	5/6/21
Aggregate Principal Amount of Refunded Bonds		\$4,250,000

Payment of Refunded Bonds

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

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

The Non-Refunded Bonds (Remaining Outstanding Bonds)

The District has, in addition to the Series 2012 Bonds, and Series 2013 Refunding Bonds also issued Unlimited Tax Bonds, Series 1981 (the “Series 1981 Bonds”); Unlimited Tax Bonds, Series 1985 (the “Series 1985 Bonds”), Unlimited Tax Bonds, Series 1994 (the “Series 1994 Bonds”), Unlimited Tax Bonds, Series 1996 (the “Series 1996 Bonds”), Unlimited Tax Bonds, Series 1999 (the “Series 1999 Bonds”), Unlimited Tax Bonds, Series 2003 (the “Series 2003 Bonds”), Unlimited Tax Bonds, Series 2006 (the “Series 2006 Bonds”), Unlimited Tax Bonds, Series 2009 (the “Series 2009 Bonds”) Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018 (the “Series 2018 Bonds”) to finance water supply and distribution, wastewater collection and storm drainage facilities (the “System”). The District also has issued Unlimited Tax Refunding Bonds, Series 1992 (the “Series 1992 Refunding Bonds”), Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Refunding Bonds”), Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”), and Unlimited Tax Refunding Bonds, Series 2016 (the “Series 2016 Refunding Bonds”) to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all of such bonds previously issued by the District as the “Prior Bonds.” The District has never defaulted in the timely payment of principal of or interest on the Prior Bonds. Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is \$16,465,000 (the “Outstanding Bonds”). After issuance of the Bonds, the aggregate principal amount of the District's Outstanding Bonds not heretofore paid by the District, less the Refunded Bonds, will be \$12,215,000 (the “Remaining Outstanding Bonds”) and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be \$16,565,000. In addition to the components of the System that the District has financed with the proceeds of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of bonds, if any, to be issued by the District in the future. See “THE BONDS - Authority for Issuance,” and - “Issuance of Additional Debt,” “THE SYSTEM,” and “INVESTMENT CONSIDERATIONS - Future Debt.”

The principal amounts and maturity dates (or mandatory redemption amounts and dates, as applicable) of the Remaining Outstanding Bonds are as follows:

REMAINING OUTSTANDING BONDS
PRINCIPAL AMOUNTS

<u>Maturity Date</u> <u>(November 1)</u>	<u>Series 2013</u>	<u>Series 2016</u>	<u>Series 2018</u>
2021	\$885,000	\$130,000	
2022	915,000	130,000	
2023		140,000	
2024		675,000	\$350,000
2025		710,000	345,000
2026		720,000	365,000
2027		750,000	375,000
2028			565,000
2029			575,000
2030			580,000
2031			590,000
2032			590,000
2033			1,380,000
2034			<u>1,445,000</u>
	<u>\$1,800,000</u>	<u>\$3,255,000</u>	<u>\$7,160,000</u>
Total Principal Amount of Non-Refunded Bonds (Remaining Outstanding Bonds)			\$12,215,000

Sources and Uses of Funds

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

SOURCES OF FUNDS:

Principal Amount of Bonds	\$4,350,000.00
Plus: Accrued Interest	966.67
Plus: Original Issue Premium on the Bonds	<u>129,715.75</u>
Total Sources of Funds	\$4,480,682.42

USES OF FUNDS:

Deposit with Paying Agent for the Refunded Bonds	\$4,251,783.68
Deposit Accrued Interest to Debt Service Fund	966.67
Expenses:	
Underwriter Discount	31,189.50
Municipal Bond Insurance Premium and Other Issuance Expenses	<u>196,742.57</u>
Total Uses of Funds	\$4,480,682.42

THE DISTRICT

Authority

The District is a political subdivision of the State of Texas, and is a municipal utility district created by an act of the 62nd Legislature of Texas, Regular Session, 1971. The District was created pursuant to the authority of Chapter 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54, Texas Water Code, as amended. The principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, and drainage facilities and to provide such facilities and services to the customers of the District. The District, if approved by the voters within the District, the TCEQ, and other governmental entities having jurisdiction, may 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. Under certain limited circumstances the District also is authorized to construct, develop and maintain park and recreational facilities and to construct roads. The District is subject to the continuing supervision of the TCEQ in certain matters.

Description

When created, the District contained approximately 381 acres of land. Subsequent annexations of land have resulted in the District's present size of approximately 682.1 acres of land. The District is located approximately 25 miles northwest of the central business district of Houston, Texas. The District is located in northwestern Harris County, approximately 3 miles north of FM 1960, and approximately 4 miles west of Interstate Highway 45. Spring-Cypress Road forms the north boundary of a portion of the District, and Louetta Road forms the southern boundary of a portion of the District. Spring Creek Forest Public Utility District bounds the District to the west. The District consists of three non-contiguous tracts of approximately 412, 237, and 34 acres. The approximate 412 acre portion of the District is located approximately 2,700 feet west of the intersection of Kuykendahl Road and Louetta Road. Kuykendahl Road forms the west boundary and Louetta Road forms the south boundary of the approximate 237 acre portion of the District. The approximate 34 acre portion of the District is located approximately 6,600 feet west of the intersection of Kuykendahl Road and Louetta Road with Louetta Road forming the north boundary and Spring Gully forming the west boundary thereof. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston, Texas. The District is located within Harris County, Texas, and the Klein Independent School District. See "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. The current members and officers of the Board, along with their respective terms of office, are listed below. All of the Directors currently resides within the District.

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
Cynthia D. Day	President	2024
Dennis E. Winkler	Vice President	2024
F. Anthony Musgrave	Secretary	2022
Wayne Mentz	Assistant Secretary	2024
Vacant	Director	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 has engaged Wheeler & Associates, Inc. Houston, Texas, as the District's Tax Assessor/Collector. According to Wheeler, Inc., it presently serves approximately 100 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

Consulting Engineers - The District has employed the firm of Jones & Carter, Inc., Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design and construction of the System.

Bookkeeper - The District has engaged Myrtle Cruz, Inc.. as the District's Bookkeeper. According to Myrtle Cruz, Inc., it currently serves approximately 359 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 financial statements of the District as of May 31, 2020, and for the year then ended, included in this offering document, have been audited by Mark C. Eyring CPA, PLLC. A copy of the District's financial statements for the fiscal year ended May 31, 2020, is included as "APPENDIX B" to this Official Statement.

Utility System Operator – H2O Innovations is the general operator of the System. According to H2O Innovations, it is currently engaged as utility system operator for approximately 46 utility districts.

Bond Counsel and General Counsel - Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas ("Bond Counsel") serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Radcliffe Bobbitt Adams Polley PLLC serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the "Financial Advisor") to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. 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/company search.html>.

DEVELOPMENT AND HOME CONSTRUCTION

Single-family residential development in the District is complete. As of March 1, 2021, the District contained 1,760 single-family homes, all of which have been sold to homeowners. Development activity which has been conducted to date within the District includes the completion of the development of an aggregate of approximately 646.4 acres of land which include 1,782 single-family residential building sites located in Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2, and Country Lakes Estates Village, Sections 1 and 2. The District also contains two platted unrestricted reserves on which an office building containing approximately 8,600 square feet of building area (approximately 1 acre) and a skating rink (approximately 2.1 acres) have been constructed, an approximately 2.0 acre site on which a retail store has been constructed, an approximately 0.57 acre site on which a restaurant has been constructed, an approximately 2 acre site on which the Addison Funeral Home has been constructed, a site on which the Klein Independent School District has constructed an elementary school (approximately 14.7 acres), an approximately 1 acre site on which the Ponderosa Volunteer Fire Department has constructed the Ponderosa Fire Station No. 62, a site on which a church has been constructed (approximately 2.7 acres), and an approximately 2 acre site on which a Stripes gas station has been constructed. There is an additional approximately 9.4 acre tract of commercial property located in the District along Kuykendahl Road that has been developed with wastewater and water facilities to the perimeter of such tract that is available for the construction of above-ground improvements, on approximately 1 acre of which a Shell gas station has been constructed. The remaining acreage in the District consists of recreational sites (which include recreational centers, parks, walking trails and open spaces), a drainage channel right-of-way owned by the Harris County Flood Control District, District facility sites, road rights-of-way, or is otherwise not available for future development.

The District financed the acquisition or construction of underground water distribution, wastewater collection and storm drainage facilities to serve Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2 and Country Lake Estates Village, Sections 1 and 2 with proceeds of the Prior Bonds. In addition to the acquisition or construction of improvements to the System that the District has financed the proceeds of the sale of the Prior Bonds, the District expects to finance the District's cost of acquisition or construction of additional improvements to the System with bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance," - "Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM - Description."

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken March 2021)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken March 2021)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken March 2021)



DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Remaining Outstanding Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the Refunded Bonds, will be \$12,215,000 (the “Remaining Outstanding Bonds”), and the aggregate principal amount of the District's bonded indebtedness, including the Bonds, will be \$16,565,000. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government that overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

2020 Assessed Valuation	\$	510,682,257 (a)
(As of January 1, 2020)		
See “TAX DATA” and “TAXING PROCEDURES”		
Direct Debt:		
Remaining Outstanding Bonds	\$	12,215,000
The Bonds		<u>4,350,000</u>
Total	\$	16,565,000 (b)
Estimated Overlapping Debt	\$	<u>26,894,025</u>
Total Direct and Estimated Overlapping Debt	\$	43,459,025
Direct Debt Ratio		
: as a percentage of 2020 Assessed Valuation.....		3.24 %
Direct and Overlapping Debt Ratio		
: as a percentage of 2020 Assessed Valuation.....		8.51 %
Debt Service Fund Balance Estimated as of the Date of Delivery of the Bonds	\$	2,381,660 (c)
General Fund Balance as of March 4, 2021.....	\$	6,904,372
2020 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax.....	\$	0.34
Maintenance Tax.....		<u>0.18</u>
Total	\$	0.52 (d)
Average Percentage of Total Tax Collections (2010-2019) as of February 28, 2021.....		99.89 %
Percentage of Tax Collections of 2020 Levy as of February 28, 2021 (In process of collection)		95.44 %

(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”). See “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments” and “TAXING PROCEDURES.”

- (b) In addition to the components of the System that the District has financed with the proceeds of the Prior 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” “FUTURE DEVELOPMENT,” “THE SYSTEM” and “INVESTMENT CONSIDERATIONS - Future Debt.”
- (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund. Such fund balance reflects the timely payment by the District of the debt service requirements on the Outstanding Bonds that are due on May 1, 2021. The District’s remaining debt service payments for 2021, which are due on November 1, 2021, total \$1,235,084, and consist of the payment of principal of and interest on the Remaining Outstanding Bonds and the Bonds.
- (d) The District levied a debt service tax in the amount of \$0.34 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.18 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2020 tax levies of all units of government which levy taxes against the property located within the District, plus the 2020 tax of the District is \$2.652627 per \$100 of Assessed Valuation. Such aggregate levy is higher than the aggregate of the tax levies of some municipal utility districts located in the greater Houston metropolitan area, but is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments.”

Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have 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.

Taxing Jurisdiction	Debt as of March 1, 2021	Estimated Overlapping Percent	Amount
Harris County	\$1,672,657,125	0.10104%	\$1,690,086
Harris County Department of Education	20,185,000	0.10104%	20,395
Harris County Flood Control District	334,270,000	0.10104%	337,753
Harris County Hospital District	86,050,000	0.10104%	86,947
Port of Houston Authority	492,439,397	0.10104%	497,571
Lone Star College System	542,290,000	0.22715%	1,231,839
Klein ISD	1,090,270,000	2.11227%	<u>23,029,434</u>
Total Estimated Overlapping Debt			\$26,894,025
The District (the Bonds and the Remaining Outstanding Bonds)			<u>16,565,000</u>
Total Direct & Estimated Overlapping Debt			\$43,459,025

Debt Ratios

% of 2020
Assessed Valuation

Direct Debt	3.24%
Direct and Estimated Overlapping Debt	8.51%

Under Texas law, ad valorem taxes levied by each taxing authority other than the District create a lien that is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administration, and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy, and collect ad valorem taxes for operations and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District. The District has levied a maintenance tax of \$0.18 per \$100 of Assessed Valuation in 2020. See “TAX DATA - Maintenance Tax.”

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements for the Outstanding Bonds, less the debt service requirements for the Refunded Bonds, plus the principal and interest requirements of the Bonds.

<u>Year Ending December 31</u>	<u>Current Total Debt Service</u>	<u>Less: Debt Service on Refunded Bonds</u>	<u>Plus: The Bonds -</u>		<u>Current Total New Debt Service Requirements</u>
			<u>Principal</u>	<u>Interest</u>	
2021	\$1,496,592	\$64,213		\$43,500	\$1,475,880
2022	1,497,325	128,425	\$ 20,000	87,000	1,475,900
2023	1,512,158	1,078,425	970,000	86,600	1,490,333
2024	1,415,732	99,925	10,000	67,200	1,393,007
2025	1,421,125	99,925	10,000	67,000	1,398,200
2026	1,425,936	99,925	15,000	66,800	1,407,811
2027	1,439,938	99,925	15,000*	66,500	1,421,513
2028	1,438,013	684,925	600,000*	66,200	1,419,288
2029	1,448,513	702,375	630,000	54,200	1,430,338
2030	1,457,663	723,775	660,000	41,600	1,435,488
2031	1,465,463	738,975	690,000	28,400	1,444,888
2032	1,470,438	763,125	730,000	14,600	1,451,913
2033	1,478,875				1,478,875
2034	1,495,575				1,495,575
	\$20,463,346	\$5,283,938	\$4,350,000	\$689,600	\$20,219,009

Average Annual Requirements: (2021-2034)	\$1,444,215
Maximum Annual Requirement: (2034)	\$1,495,575

* Represents mandatory sinking fund payments on Term Bonds.

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Remaining Outstanding Bonds and the Bonds (see "TAXING PROCEDURES"). The Board of Directors of the District has in its Bond Order covenanted 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 (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). The District has levied a debt service tax for 2020 at a rate of \$0.34 per \$100 of Assessed Valuation. See - "Tax Rate Distribution" below.

Maintenance Tax

The Board 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. The Board has been authorized by a vote of the District's electors to levy such maintenance tax in an amount not to exceed \$0.25 per \$100 of Assessed Valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds and any additional parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.18 per \$100 of Assessed Valuation in 2020.

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$0.25 per \$100 Assessed Valuation.

Historical Values and Tax Collection History

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate(a)</u>	<u>Adjusted Levy</u>	<u>Cumulative % Collections</u>	
				<u>Current & Prior Years(b)</u>	<u>Year Ended 9/30</u>
2010	\$337,253,550	\$0.56	\$1,888,585	99.96%	2011
2011	344,009,915	0.59	2,029,525	99.96	2012
2012	350,321,738	0.59	2,066,787	99.96	2013
2013	360,626,944	0.59	2,127,588	99.96	2014
2014	394,904,747	0.57	2,250,683	99.96	2015
2015	432,314,994	0.56	2,420,665	99.96	2016
2016	454,589,646	0.53	2,409,283	99.95	2017
2017	465,561,206	0.53	2,467,440	99.78	2018
2018	477,768,585	0.52	2,484,363	99.79	2019
2019	498,344,791	0.52	2,591,385	99.57	2020
2020	510,682,257	0.52	2,655,548	95.44(c)	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 February 28, 2021. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.

(c) As of February 28, 2021. In process of collection.

Exemptions

The District granted a \$15,000 exemption for persons who are 65 years of age or older or disabled for the 2021 tax year.

Tax Rate Distribution

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Debt Service	\$0.34	\$0.35	\$0.35	\$0.37	\$0.38
Maintenance	<u>0.18</u>	<u>0.17</u>	<u>0.17</u>	<u>0.16</u>	<u>0.15</u>
Total	\$0.52	\$0.52	\$0.52	\$0.53	\$0.53

Analysis of Tax Base

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

<u>Type of Property</u>	<u>2020</u>		<u>2019</u>		<u>2018</u>	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$90,419,275	17.71%	\$90,846,891	18.23%	\$90,816,544	19.01%
Improvements	443,799,412	86.90%	430,788,001	86.44%	408,969,656	85.60%
Personal Property	4,743,515	0.93%	4,652,447	0.93%	4,561,338	0.95%
Exemptions	<u>(28,279,945)</u>	<u>(5.54%)</u>	<u>(27,942,548)</u>	<u>(5.61%)</u>	<u>(26,578,953)</u>	<u>(5.56%)</u>
TOTAL	\$510,682,257	100.00%	\$498,344,791	100.00%	\$477,768,585	100.00%

<u>Type of Property</u>	<u>2017</u>		<u>2016</u>	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$88,708,749	19.05%	\$84,237,969	18.53%
Improvements	397,622,052	85.41%	389,143,018	85.60%
Personal Property	5,673,588	1.22%	5,884,706	1.29%
Exemptions	<u>(26,443,183)</u>	<u>(5.68%)</u>	<u>(24,676,047)</u>	<u>(5.43%)</u>
TOTAL	\$465,561,206	100.00%	\$454,589,646	100.00%

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 the Appraisal District's record of property ownership as of January 1, 2020.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Taxable Value</u>	<u>% of 2020 Tax Roll</u>
7 Eleven Inc.	Land, Improvements and Personal Property	\$2,457,579	0.48%
CenterPoint Energy Inc.	Personal Property	1,391,480	0.27%
Addison Funeral Homes Inc.	Land and Improvements	1,287,785	0.25%
E Squared Trading LLC	Land and Improvements	1,120,747	0.22%
FM 2920 Kuykendahl Investment LLC	Land	1,114,728	0.22%
Chester M. Pitts II	Home	908,701	0.18%
Qaaim Commercial LLC	Land	817,506	0.16%
Comcast of Houston LLC	Personal Property	816,400	0.16%
Michael R. Jackson	Home	810,720	0.16%
Cesar & Kristina Sanchez	Home	<u>792,550</u>	<u>0.16%</u>
Total		\$11,518,196	2.26%

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. The calculations assume collection of 95% of taxes levied, no use of funds on hand, and the sale of no bonds by the District other than the Prior Bonds and the Bonds.

Average Annual Debt Service Requirements (2021-2034)	\$1,444,215
Tax Rate of \$0.30 on the 2020 Assessed Valuation (\$510,682,257) produces	\$1,455,444
Maximum Annual Debt Service Requirement (2034)	\$1,495,575
Tax Rate of \$0.31 on the 2020 Assessed Valuation (\$510,682,257) produces	\$1,503,959

The District levied a debt service tax of \$0.34 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.18 per \$100 of Assessed Valuation. As the above table indicates, the 2020 debt service rate is sufficient to pay debt service on the Bonds and the Remaining Outstanding Bonds, assuming taxable values in the District at the level of the 2020 Assessed Valuation, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. In addition, the District's Debt Service Fund balance is estimated to be \$2,381,660 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District expects to apply earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Bonds and the Remaining Outstanding Bonds. The District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds as is delineated in "APPENDIX B - ANNUAL AUDIT REPORT" that is appended to this Official Statement. Moreover, as is illustrated above under the caption "Historical Values and Tax Collection History," as of February 28, 2021, the District had collected an average annual percentage of its property taxes of 99.89% for the period 2010 through 2019, and its 2020 tax levy, which was in the process of collection, was 95.44% collected as of such date. Therefore, the District anticipates that it will be able to meet its debt service requirements on the Bonds and the Remaining Outstanding Bonds without increasing the District's debt service tax rate above the rate which it has levied for 2020 - \$0.34 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners.

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2020 taxes levied upon property located within the District and the District's 2020 tax rate. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness 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.

<u>Taxing Jurisdiction</u>	<u>2020 Tax Rate/\$100</u>
The District*	\$0.520000
Harris County	0.391160
Harris County Department of Education	0.004993
Harris County Flood Control District	0.031420
Harris County Hospital District	0.166710
Port of Houston Authority	0.009910
Klein Independent School District	1.337300
Lone Star College System District	0.107800
Harris County Emergency Services District No. 11	0.033334
Harris County Emergency Services District No. 16	<u>0.050000</u>
TOTAL TAX RATE	\$2.652627

* The District has levied a total tax of \$0.52 per \$100 of Assessed Valuation for 2020, consisting of a debt service tax of \$0.34 per \$100 of Assessed Valuation and a maintenance tax of \$0.18 per \$100 of Assessed Valuation.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Remaining Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully 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. 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 has granted a \$15,000 exemption for persons 65 years or older and certain disabled persons for the 2021 tax year. 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, 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 Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston, 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 the 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 Boards, 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 District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses 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 Developed 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 "INVESTMENT CONSIDERATIONS - Tax Collection Limitations."

THE SYSTEM

Regulation

According to the District's Engineer, the District's water, wastewater and storm drainage facilities (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, Harris County, the Harris County Flood Control District, and the City. According to the District's Engineer, all such facilities constructed to date have been approved by all required governmental agencies. During construction, such facilities are subject to inspection by the foregoing governmental agencies and the District's Engineer.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision. The total number of equivalent single-family connections ("ESFCs") currently estimated for the District upon full development of its approximate 682.1 acres is 1,862 ESFCs with a total estimated population of 5,862 people. The following descriptions are based upon information supplied by the District's Engineer.

Description

The System currently serves the 1,782 fully developed single-family residential lots in Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2, and Country Lake Estates Village, Sections 1 and 2, and other property located in the District as is described in this Official Statement under the caption "DEVELOPMENT OF THE DISTRICT." Proceeds of the sale of the Prior Bonds were used to finance the construction or acquisition of underground water distribution, wastewater collection and storm drainage facilities to serve Spring Creek Oaks, Sections 1, 2 and 4 through 10, Spring Creek Oaks Patio Homes, Woods of Spring Creek Oaks, Oaks of Spring Creek, Country Lake Estates, Sections 1 through 3, Cypress Trace, Section 2, and Country Lakes Estates Village, Sections 1 and 2 located in the District.

In addition to the acquisition or construction of improvements to the System that the District has financed with the proceeds of the sale of the Prior Bonds, the District expects to finance the District's cost of acquisition or construction of additional improvements to the System with the sale of bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance," - "Issuance of Additional Debt," "INVESTMENT CONSIDERATIONS - Future Debt."

Water Supply

The District financed the cost of permanent water supply facilities with portions of the proceeds of the sale of the Prior Bonds. Such facilities include a 1,500 gallons-per-minute ("g.p.m.") water well, ground storage tanks aggregating 1,127,000 gallons of capacity, hydropneumatic tanks aggregating 50,000 gallons of capacity, booster pumps aggregating 5,350 g.p.m., and two control buildings and electric controls. The District receives approximately 1,000,000 g.p.d. of surface water from the North Harris County Regional Water Authority (the "Authority") through the Authority's Ground Water Reduction Plan. See - "Subsidence and Conversion to Surface Water Supply" below. According to the District's Engineer, the District also financed with portions of the proceeds of the Prior Bonds its share of the cost of emergency water interconnection lines which connect the District's water supply and distribution system with the water supply and distribution systems of Spring Creek Forest Public Utility District, Terranova West Municipal Utility District/Louetta Road Utility District, Northwest Harris County Municipal Utility District No. 36, Harris County Municipal Utility District No. 275, and Bridgestone Municipal Utility District to provide all of such districts a second source of water in the event of emergency. According to the District's Engineer, the facilities are sufficient to provide capacity to serve a total of 2,500 ESFCs.

Wastewater Treatment

The District financed the cost of installing a wastewater treatment facility with an ultimate capacity of 740,000 gallons-per-day (g.p.d.) with portions of the proceeds of the sale of the Prior Bonds. The current capacity of the wastewater treatment facility is 500,000 g.p.d. According to the District's Engineer, the facility is adequate to provide capacity to serve a total of 2,000 ESFCs.

Storm Drainage and 100-Year Flood Plain

Storm water drainage for the District is accomplished by a channel improvement and storm sewer system financed with proceeds of the sale of the Prior Bonds. The drainage channel outfalls into Spring Gully, which is a tributary of Cypress Creek. According to the District's Engineer, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land located in the District indicates that the 100-year flood plain of Spring Gully and a lateral channel of Spring Gully is entirely contained within the aforementioned drainage channel, except for 6 lots located in Spring Creek Oaks, Section 2. The Tropical Storm Allison Recovery Project ("TSARP") was undertaken to study the 100-year flood plain in certain portions of the Houston metropolitan area as a consequence of Tropical Storm Allison. The Engineer has reported to the District that approximately seventy-two (72) lots located in Spring Creek Oaks are in the 100-year flood plain as redefined by TSARP. According to the Engineer, all floor slab elevations in Spring Creek Oaks are above the 100-year flood elevation.

“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 “INVESTMENT CONSIDERATIONS - Extreme 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 District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

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. 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 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.

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. Effective April 1, 2021, the Authority charges other major groundwater users \$5.05 per 1,000 gallons for surface water use or a pumpage rate of \$4.60 per 1,000 gallons based on the amount of groundwater pumped. However, the District receives a credit based on a prior capital contribution, and as a result, the rate charged by the District to District customers is discounted. The Authority has to date issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will issue substantially more bonds by the year 2030 to finance the Authority’s project costs. The District has the option to pay its pro rata portion of any Authority financing to the Authority in cash and receive a credit from the Authority on its pumpage fee attributable to such payment, or to not make such capital contribution and pay the pumpage fee and receive no such credit.

Under the Subsidence District regulations and the GRP, the Authority was required to limit groundwater withdrawals to no more than 70% of the total water demand within the Authority’s GRP by January 2010. Additionally, the Subsidence District requires that the Authority limit groundwater withdrawals to no more than 40% of the total water demand within the Authority’s GRP beginning in 2025; and limit groundwater withdrawals to no more than 20% of the total water demand within the Authority’s GRP beginning in 2035. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand within

the Authority's GRP, which fee is currently \$9.50 per 1,000 gallons; however, such fee may be increased by the Subsidence District at any time. 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 failed 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. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District, are secured by the proceeds an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability 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 representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. 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. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source of Payment" and "Registered Owners' Remedies."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for residences of this type can be significantly affected by factors such as interest rates, credit availability, construction costs, energy costs and availability and the prosperity and demographic characteristics of the urban center toward which the marketing of homes and commercial enterprises 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 as well as the value of existing homes (see "Potential Effects of Oil Price Declines on the Houston Area" below). Decreased levels of home construction activity would restrict the growth of property values in the District. Although development of the District has occurred to date as described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION," the District cannot predict the pace or magnitude of any future development in the District other than that which has occurred to date.

National Economy: The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, employment levels and general economic conditions. Although development of the District has occurred as described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION" the District cannot predict the pace or magnitude of any future development or construction in the District other than that

which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing markets or in the national housing and financial markets may have on the Houston market generally and the District specifically.

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. The District's 2020 Assessed Valuation is \$510,682,257. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds will be \$1,495,575 (2034) and the Average Annual Debt Service Requirements will be \$1,444,215 (2021 through 2034, inclusive). Assuming no increase to nor decrease from the 2020 Assessed Valuation, no use of funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.31 and \$0.30 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a debt service tax of \$0.34 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.18 per \$100 of Assessed Valuation. As is indicated above, the 2020 debt service rate is sufficient to pay debt service on the Bonds and the Remaining Outstanding Bonds, assuming taxable values in the District at the level of the 2020 Assessed Valuation, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. In addition, the District's Debt Service Fund balance is estimated to be \$2,381,660 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District expects to apply earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Bonds and the Remaining Outstanding Bonds. The District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds as is delineated in "APPENDIX B – ANNUAL AUDIT REPORT" that is appended to this Official Statement. Moreover, as is illustrated above under the caption "TAX DATA - Historical Values and Tax Collection History," as of February 28, 2021, the District had collected an average annual percentage of its property taxes of 99.89% for the period 2010 through 2019, and its 2020 tax levy, which was in the process of collection, was 95.44% collected as of such date. Therefore, the District anticipates that it will be able to meet its debt service requirements on the Bonds and the Remaining Outstanding Bonds without increasing the District's debt service tax rate above the rate which it has levied for 2020 - \$0.34 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAXING PROCEDURES." In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Authority for Issuance" and - "Issuance of Additional Debt," "DISTRICT DEBT - Debt Service Requirement Schedule," "THE SYSTEM" and "Future Debt" below.

As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's rate, is \$2.652627 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (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 of 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 Order 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. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. 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.

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 Underwriters 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 reserved in the Bond Order the right to issue the remaining \$9,695,635 unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities, the \$8,500,000 for recreational facilities, the \$29,560,000 for refunding purposes, and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining \$9,695,635 bonds described above for waterworks, wastewater and drainage facilities and \$8,500,000 for recreational 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 \$9,695,635 bonds for waterworks, wastewater and drainage facilities and \$8,500,000 for recreational facilities is also subject to TCEQ authorization. In addition to the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of bonds, if any, to be issued by the District in the future. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” “DISTRICT DEBT - Debt Service Requirement Schedule,” and “THE SYSTEM.”

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure 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 non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral

features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR 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.

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced multiple 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. However, according to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service from Hurricane Harvey. Neither the District's Operator nor Engineer are aware of any homes or businesses within the District that experienced structural flooding or other significant damage as a result of Hurricane Harvey.

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

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.

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. Additional information regarding executive orders issued by the Governor

is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic 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 or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and 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 partially 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 residential and commercial property in the Houston area and could reduce or negatively affect property values 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.

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.

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 legally 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 Bond Counsel for the District, to a like effect and to the

effect that, under existing law, interest on the Bonds is excludable from gross income for federal tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS," except for the information under the subheading "Book-Entry-Only System," "PLAN OF FINANCING - The Refunded Bonds," and "Payment of Refunded Bonds," "THE DISTRICT – Authority," - "Management of the District - Bond Counsel and General Counsel," "TAXING PROCEDURES," "LEGAL MATTERS - Legal Opinions", "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 and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has either 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.

Radcliffe Bobbitt Adams Polley PLLC 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. Certain legal matters will be passed upon for the Underwriter by McCall Parkhurst & Horton L.L.P., Houston, Texas. McCall Parkhurst & Horton L.L.P. has acted as Disclosure Counsel for the District on certain previous new money financings.

No-Litigation Certificate

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

No Material Adverse Change

The obligations of the Underwriters 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.

TAX MATTERS

In the opinion of Radcliffe, Bobbitt, Adams & Polley PLLC, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue

discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Qualified Tax-Exempt Obligations

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided on behalf of the District relating to (a) computation of the adequacy of the amounts to be held by the Paying Agent for the Refunded Bonds to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yield on the Refunding Bonds, and (c) the mathematical computations related to certain requirements of City of Houston Ordinance No. 97-416 was verified by Robert Thomas CPA, LLC. The computations were independently verified by Robert Thomas CPA, LLC based solely upon assumptions and information supplied on behalf of the District, and the District. Robert Thomas CPA, LLC has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

Robert Thomas CPA, LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Robert Thomas CPA, LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

OFFICIAL STATEMENT

General

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

The financial statements of the District as of May 31, 2020, and for the year then ended, included in this offering document, have been audited by Mark C. Eyring, CPA PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX B."

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 Jones & Carter, 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 Wheeler & Associates, Inc. and the Appraisal District. Such information has been included herein in reliance upon the authority of Wheeler & Associates, Inc. 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

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified 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 annually to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT," "TAX DATA," and in "APPENDIX B." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to the MSRB or any successor to its functions as a repository.

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 "Rule"). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order 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 fiscal year end is currently May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final 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 Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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 at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects 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 Underwriters to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the Remaining Outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Order if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so

would not prevent the Underwriters from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

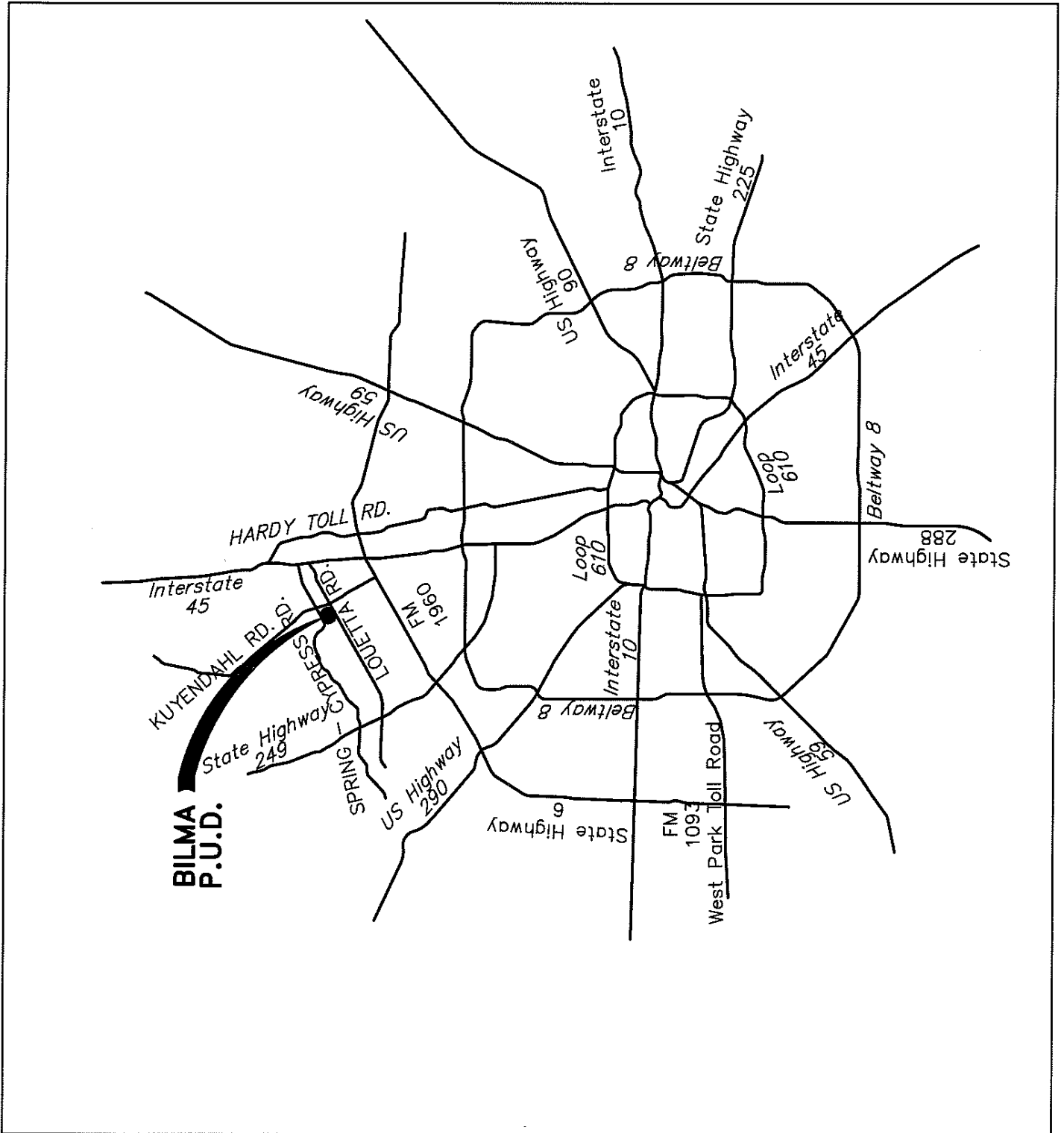
This Official Statement was approved by the Board of Directors of Bilma Public Utility District as of the date shown on the first page hereof.

/s/ Cynthia D. Day
President, Board of Directors
Bilma Public Utility District

ATTEST:

/s/ F. Anthony Musgrave
Secretary, Board of Directors
Bilma Public Utility District

APPENDIX A
LOCATION MAP



AREA MAP

APPENDIX B

BILMA PUBLIC UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL AUDIT REPORT

MAY 31, 2020

BILMA PUBLIC UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL AUDIT REPORT

MAY 31, 2020

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Mark C. Eyring, CPA, PLLC

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September 3, 2020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bilma Public Utility District
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Bilma Public Utility District, as of and for the year ended May 31, 2020, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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 assessment of the risk 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 I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Bilma Public Utility District as of May 31, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 24 to 42 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right portion of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Bilma Public Utility District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2020.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Current and other assets	\$ 16,957,763	\$ 16,761,664	\$ 196,099
Capital assets	<u>9,924,872</u>	<u>9,755,160</u>	<u>169,712</u>
Total assets	<u>26,882,635</u>	<u>26,516,824</u>	<u>365,811</u>
Long-term liabilities	16,460,228	17,858,967	(1,398,739)
Other liabilities	<u>1,961,695</u>	<u>1,918,076</u>	<u>43,619</u>
Total liabilities	<u>18,421,923</u>	<u>19,777,043</u>	<u>(1,355,120)</u>
Net position:			
Invested in capital assets, net of related debt	(7,934,095)	(9,461,602)	1,527,507
Restricted	10,354,436	10,792,665	(438,229)
Unrestricted	<u>6,040,371</u>	<u>5,408,718</u>	<u>631,653</u>
Total net position	<u>\$ 8,460,712</u>	<u>\$ 6,739,781</u>	<u>\$ 1,720,931</u>

Summary of Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues:			
Property taxes	\$ 2,607,000	\$ 2,502,166	\$ 104,834
Charges for services	2,451,082	2,346,727	104,355
Other revenues	<u>191,976</u>	<u>183,348</u>	<u>8,628</u>
Total revenues	<u>5,250,058</u>	<u>5,032,241</u>	<u>217,817</u>
Expenses:			
Service operations	3,020,762	4,256,236	(1,235,474)
Debt service	<u>508,365</u>	<u>850,340</u>	<u>(341,975)</u>
Total expenses	<u>3,529,127</u>	<u>5,106,576</u>	<u>(1,577,449)</u>
Change in net position	1,720,931	(74,335)	1,795,266
Net position, beginning of year	<u>6,739,781</u>	<u>6,814,116</u>	<u>(74,335)</u>
Net position, end of year	<u>\$ 8,460,712</u>	<u>\$ 6,739,781</u>	<u>\$ 1,720,931</u>

Financial Analysis of the District's Funds

The District's combined fund balances at the end of the fiscal year, May 31, 2020, were \$16,378,132, an increase of \$188,156 from the prior year.

The General Fund balance increased by \$488,461, in accordance with the District's financial plan.

The Debt Service Fund balance decreased by \$129,585, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$170,720, as authorized expenditures exceeded interest earnings on deposits and investments.

General Fund Budgetary Highlights

The Board of Directors amended the budget during the fiscal year. The original budget adopted by the Board of Directors anticipated no increase or decrease in the fund balance during the year. During the fiscal year, the Board of Directors adopted an amended budget which anticipated a decrease in the fund balance during the year of \$784,575. The change from the original budget to the final budget was due to changes in various revenues and expenditures.

The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of May 31, 2020, was expected to be \$8,548,399 and the actual end of year fund balance was \$9,821,435.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2020</u>	<u>2019</u>	<u>Change</u>
Land	\$ 683,132	\$ 683,132	\$ 0
Detention ponds	743,947	743,947	0
Construction in progress	482,645	113,307	369,338
Water facilities	2,509,332	2,555,211	(45,879)
Sewer facilities	5,505,816	5,659,563	(153,747)
Totals	<u>\$ 9,924,872</u>	<u>\$ 9,755,160</u>	<u>\$ 169,712</u>

Changes to capital assets during the fiscal year ended May 31, 2020, are summarized as follows:

Additions:

Water system improvements	\$ 181,257
Sewer system improvements	329,605
Reclaimed water system engineering	140,514
Total additions to capital assets	<u>651,376</u>

Decreases:

Depreciation	<u>(481,664)</u>
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Net change to capital assets	<u>\$ 169,712</u>
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Debt

Changes in the bonded debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

Bonded debt payable, beginning of year	\$ 19,160,000
Bonds paid	(1,325,000)
Bonded debt payable, end of year	<u>\$ 17,835,000</u>

At May 31, 2020, the District had \$9,695,635 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's Series 2012, 2012 Refunding, 2013 and 2018 bonds have an underlying rating of A by Standard & Poor's. The Series 2012 and 2012 Refunding bonds are insured by Assured Guaranty Municipal Corp. The Series 2013, 2016 and 2018 bonds are not insured. The insured rating of the Series 2012 and 2012 Refunding bonds is A2 by Moody's and AA by Standard & Poor's. The rating of the Series 2013 and 2018 bonds is A by Standard & Poor's. There were no changes in the rating of the bonds during fiscal year ended May 31, 2020.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$20,660,000 for the 2019 tax year (approximately 4%) due to the increase in the average valuation of property within the District.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Houston.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has elected to participate in this manner as described below. The District was required by the NHCRWA to participate in the groundwater conversion project by converting to surface water. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At May 31, 2020, the pumpage fee was \$3.85 and is expected to increase in the future. At May 31, 2020, the authority's surface water usage fee was \$4.30 and is expected to increase in the future. The NHCRWA has sold bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

As further described in Note 9 of the notes to the financial statements, the District has contributed funds to the Authority for its share of the construction costs. Under the terms of the contracts, the District will receive credits quarterly. These credits are to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credits are based upon the amortization of the District's contribution.

BILMA PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

MAY 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 454,143	\$ 423,210	\$ 5,563	\$ 882,916	\$	\$ 882,916
Certificates of deposit, at cost, Note 7	1,001,361	966,039		1,967,400		1,967,400
Temporary investments, at cost, Note 7	4,853,178	1,383,814	3,772,041	10,009,033		10,009,033
Receivables:						
Property taxes	16,416	36,642		53,058		53,058
Accrued penalty and interest on property taxes				0	7,076	7,076
Service accounts	170,581			170,581		170,581
Accrued interest	16,257	18,217		34,474		34,474
Other	865			865		865
Prepaid expenditures	3,500			3,500		3,500
Maintenance taxes collected not yet transferred from other fund	5,173			5,173	(5,173)	0
Chloramine costs due from regional authority, Note 9	234,425			234,425		234,425
Prepaid surface water capital contribution, Note 9	3,563,055			3,563,055		3,563,055
Groundwater bank certificates, at cost, Note 10	31,380			31,380		31,380
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	1,909,724	1,909,724
Depreciable capital assets				0	8,015,148	8,015,148
Total assets	<u>\$10,350,334</u>	<u>\$2,827,922</u>	<u>\$3,777,604</u>	<u>\$ 16,955,860</u>	<u>9,926,775</u>	<u>26,882,635</u>
LIABILITIES						
Accounts payable	\$ 240,298	\$ 6,776	\$ 238	\$ 247,312		247,312
Accrued interest payable				0	43,459	43,459
Customer and builder deposits	272,185			272,185		272,185
Maintenance taxes collected not yet transferred to other fund		5,173		5,173	(5,173)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,398,739	1,398,739
Due in more than one year				0	16,460,228	16,460,228
Total liabilities	<u>512,483</u>	<u>11,949</u>	<u>238</u>	<u>524,670</u>	<u>17,897,253</u>	<u>18,421,923</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>16,416</u>	<u>36,642</u>	<u>0</u>	<u>53,058</u>	<u>(53,058)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
 Nonspendable:						
Prepaid surface water capital contribution, Note 9	3,563,055			3,563,055	(3,563,055)	0
Due from regional authority, Note 9	234,425			234,425	(234,425)	0
Groundwater bank certificates, Note 10	31,380			31,380	(31,380)	0
 Assigned to:						
Debt service		2,779,331		2,779,331	(2,779,331)	0
Capital projects			3,777,366	3,777,366	(3,777,366)	0
Unassigned	5,992,575			5,992,575	(5,992,575)	0
Total fund balances	<u>9,821,435</u>	<u>2,779,331</u>	<u>3,777,366</u>	<u>16,378,132</u>	<u>(16,378,132)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$10,350,334</u>	<u>\$2,827,922</u>	<u>\$3,777,604</u>	<u>\$ 16,955,860</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(7,934,095)	(7,934,095)
Restricted for debt service					2,779,590	2,779,590
Restricted for capital projects					3,777,366	3,777,366
Restricted for receivables from regional authority					3,797,480	3,797,480
Unrestricted					6,040,371	6,040,371
Total net position					<u>\$ 8,460,712</u>	<u>\$ 8,460,712</u>

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

BILMA PUBLIC UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED MAY 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 846,312	\$ 1,742,519	\$	\$ 2,588,831	\$ 2,227	\$ 2,591,058
Water service	596,434			596,434		596,434
Sewer service	826,880			826,880		826,880
Surface water fees, Note 9	745,612			745,612		745,612
Penalty and interest	20,438	16,111		36,549	(169)	36,380
Tap connection and inspection fees	46,731			46,731		46,731
Interest on surface water chloramine costs, Note 9	14,459			14,459		14,459
Interest on prepaid surface water capital contribution, Note 9	192,105			192,105		192,105
Interest on deposits and investments	88,787	41,509	61,680	191,976		191,976
Other revenues	8,423			8,423		8,423
Total revenues	3,386,181	1,800,139	61,680	5,248,000	2,058	5,250,058
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	277,847	5,149	1,407	284,403		284,403
Contracted services	119,423	42,619		162,042		162,042
Utilities	128,087			128,087		128,087
Surface water fees, Note 9	1,007,345			1,007,345		1,007,345
Repairs and maintenance	345,931			345,931		345,931
Other operating expenditures	113,519			113,519		113,519
Garbage disposal	328,484			328,484		328,484
Administrative expenditures	127,403	12,586		139,989		139,989
Depreciation				0	481,664	481,664
Capital outlay / non-capital outlay	449,681		230,993	680,674	(651,376)	29,298
Debt service:						
Principal retirement		1,325,000		1,325,000	(1,325,000)	0
Interest and fees		544,370		544,370	(36,005)	508,365
Total expenditures / expenses	2,897,720	1,929,724	232,400	5,059,844	(1,530,717)	3,529,127
Excess (deficiency) of revenues over expenditures	488,461	(129,585)	(170,720)	188,156	1,532,775	1,720,931
Net change in fund balances / net position	488,461	(129,585)	(170,720)	188,156	1,532,775	1,720,931
Beginning of year	9,332,974	2,908,916	3,948,086	16,189,976	(9,450,195)	6,739,781
End of year	<u>\$ 9,821,435</u>	<u>\$ 2,779,331</u>	<u>\$ 3,777,366</u>	<u>\$ 16,378,132</u>	<u>\$ (7,917,420)</u>	<u>\$ 8,460,712</u>

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

BILMA PUBLIC UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 1: REPORTING ENTITY

Bilma Public Utility District (the "District") was created by an act of the 62nd Legislature of Texas, Regular Session, 1971, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on February 3, 1977, and the first bonds were sold on November 1, 1981. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District's principal functions are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts. Under certain limited circumstances the District is authorized to construct, develop and maintain park and recreational facilities and to construct roads.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Regional Water Authority Credits

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under agreements with the regional water authority are recorded as either a repayment of the principal amount or interest earned at the interest rate of the applicable agreement. The principal is amortized based upon the life of the credits and the interest rate of the applicable agreement.

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 16,378,132
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		9,924,872
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (17,835,000)	
Deferred charge on refunding (to be amortized as interest expense)	108,606	
Issuance premium, net of discount (to be amortized as interest expense)	<u>(132,573)</u>	(17,858,967)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	7,076	
Uncollected property taxes	<u>53,058</u>	60,134
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(43,459)</u>
Net position, end of year		<u>\$ 8,460,712</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 188,156
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 651,376	
Depreciation	<u>(481,664)</u>	169,712
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		1,325,000
<p>The funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(30,411)	
Issuance premium net of discount	<u>63,206</u>	32,795
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	(169)	
Uncollected property taxes	<u>2,227</u>	2,058
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>3,210</u>
Change in net position		<u>\$ 1,720,931</u>

NOTE 4: CAPITAL ASSETS

At May 31, 2020, "Invested in capital assets, net of related debt" was \$(7,934,095). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$10,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 683,132	\$	\$	\$ 683,132
Detention ponds	743,947			743,947
Construction in progress	<u>113,307</u>	<u>630,360</u>	<u>261,022</u>	<u>482,645</u>
Total capital assets not being depreciated	<u>1,540,386</u>	<u>630,360</u>	<u>261,022</u>	<u>1,909,724</u>
Depreciable capital assets:				
Water system	7,134,572	183,426		7,317,998
Sewer system	<u>9,704,633</u>	<u>98,612</u>		<u>9,803,245</u>
Total depreciable capital assets	<u>16,839,205</u>	<u>282,038</u>	<u>0</u>	<u>17,121,243</u>
Less accumulated depreciation for:				
Water system	(4,579,361)	(229,305)		(4,808,666)
Sewer system	<u>(4,045,070)</u>	<u>(252,359)</u>		<u>(4,297,429)</u>
Total accumulated depreciation	<u>(8,624,431)</u>	<u>(481,664)</u>	<u>0</u>	<u>(9,106,095)</u>
Total depreciable capital assets, net	<u>8,214,774</u> ³	<u>(199,626)</u>	<u>0</u>	<u>8,015,148</u>
Total capital assets, net	<u>\$ 9,755,160</u>	<u>\$ 430,734</u>	<u>\$ 261,022</u>	<u>\$ 9,924,872</u>
Changes to capital assets:				
Capital outlay		\$ 651,376	\$	
Assets transferred to depreciable assets		261,022	261,022	
Depreciation expense for the fiscal year		<u>(481,664)</u>		
Net increases / decreases to capital assets		<u>\$ 430,734</u>	<u>\$ 261,022</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended May 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 19,160,000	\$	\$ 1,325,000	\$ 17,835,000	\$ 1,370,000
Less deferred amounts:					
For issuance premiums (discounts)	195,779		63,206	132,573	56,054
For refunding costs	<u>(139,017)</u>		<u>(30,411)</u>	<u>(108,606)</u>	<u>(27,315)</u>
Total bonds payable	<u>19,216,762</u>	<u>0</u>	<u>1,357,795</u>	<u>17,858,967</u>	<u>1,398,739</u>
Total long-term liabilities	<u>\$ 19,216,762</u>	<u>\$ 0</u>	<u>\$ 1,357,795</u>	<u>\$ 17,858,967</u>	<u>\$ 1,398,739</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,370,000	\$ 501,550	\$ 1,871,550
2022	1,015,000	466,959	1,481,959
2023	1,045,000	437,241	1,482,241
2024	1,090,000	406,445	1,496,445
2025	1,025,000	378,428	1,403,428
2026 - 2030	5,610,000	1,489,292	7,099,292
2031 - 2035	<u>6,680,000</u>	<u>579,180</u>	<u>7,259,180</u>
	<u>\$ 17,835,000</u>	<u>\$ 4,259,095</u>	<u>\$ 22,094,095</u>

Bonds voted	\$ 60,000,000
Bonds approved for sale and sold	50,304,365
Bonds voted and not issued	9,695,635
Park bonds voted	\$ 8,500,000
Park bonds approved for sale and sold	0
Park bonds voted and not issued	8,500,000
Refunding bonds voted	\$ 38,500,000
Refunding bonds approved for sale and sold	340,000
Refunding bonds voted and not issued	38,160,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2012 non-refunding bonds and Series 2018 are further payable from and secured by a pledge of and lien on certain net revenues, if any, of the District's waterworks and sewer system to the extent and upon the conditions described in the Bond Order.

The bond issues payable at May 31, 2020, were as follows:

	<u>Refunding Series 2012</u>	<u>Series 2012</u>	<u>Refunding Series 2013</u>
Amounts outstanding, May 31, 2020	\$1,230,000	\$3,300,000	\$2,760,000
Interest rates	3.00%	3.00% to 3.125%	3.00%
Maturity dates, serially beginning/ending	November 1, 2020	November 1, 2028/2032	November 1, 2020/2023
Interest payment dates	November 1/May 1	November 1/May 1	November 1/May 1
Callable dates	Not Callable	November 1, 2019*	November 1, 2020*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Series 2016</u>	<u>Series 2018</u>
Amounts outstanding, May 31, 2020	\$3,385,000	\$7,160,000
Interest rates	2.09%	3.00% to 3.50%
Maturity dates, serially beginning/ending	November 1, 2020/2027	November 1, 2024/2034
Interest payment dates	November 1/May 1	November 1/May 1
Callable dates	November 1, 2023*	November 1, 2023*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Resolutions and Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held August 12, 1978, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On October 3, 2019, the District levied the following ad valorem taxes for the 2019 tax year on the adjusted taxable valuation of \$498,481,189:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.3500	\$ 1,744,679
Maintenance	<u>0.1700</u>	<u>847,416</u>
	<u>\$ 0.5200</u>	<u>\$ 2,592,095</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2019 tax year total property tax levy	\$ 2,592,095
Appraisal district adjustments to prior year taxes	<u>(1,037)</u>
Statement of Activities property tax revenues	<u>\$ 2,591,058</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$2,850,316 and the bank balance was \$2,849,678. Of the bank balance, \$1,763,913 was covered by federal insurance and \$1,085,765 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$10,009,033.

Deposits and temporary investments restricted by state statutes and Bond Resolutions and Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$	423,210
Certificates of deposit		966,039
Temporary investments		<u>1,383,814</u>
	\$	<u>2,773,063</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$	5,563
Temporary investments		<u>3,772,041</u>
	\$	<u>3,777,604</u>

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At May 31, 2020, the District had physical damage and boiler and machinery coverage of \$14,480,000, general liability coverage with a per occurrence limit of \$3,000,000 and \$5,000,000 general aggregate, consultant's crime coverage of \$100,000, a tax assessor-collector bond of \$10,000 and \$1,000,000 worker's compensation coverage.

NOTE 9: REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of May 31, 2020, the Authority had established a well pumpage fee of \$3.85 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$4.30 per 1,000 gallons. The District's fees payable to the Authority for the fiscal year ended May 31, 2020, were \$1,007,345. The District billed its customers \$745,612 during the fiscal year to pay for a portion of the fees charged by the Authority.

On July 7, 2003 (amended effective October 2, 2003), the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$1,304,520 to the Authority during the fiscal year ended May 31, 2004 to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$65,976 annually for the first six calendar years, beginning in 2004 and \$95,069 annually for the next 24 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2010 at a rate of 5.0575% over 24 years.

On March 25, 2005, the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$883,732 to the Authority during the fiscal year ended May 31, 2006 to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$17,707 for the 2005 calendar year, \$42,496 annually for the next four calendar years and \$60,269 annually for the next 26 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2010 at a rate of 4.8087% over 26 years.

On July 7, 2008, the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$2,359,236 to the Authority during the fiscal year ended May 31, 2009 to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$126,821 annually for the first five calendar years, beginning in 2010 and \$173,748 annually for the next 25 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2013 at a rate of 5.3755% over 25 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under agreements with the Authority are recorded as either a repayment of the principal amount or interest earned at the interest rate of the applicable agreement. The principal is amortized based upon the life of the credits and the interest rate of the applicable agreement.

During the fiscal year ended May 31, 2020, the District received credits of \$329,086 under the provisions of the Contracts. Of this amount, \$136,981 was a repayment of principal and \$192,105 was interest.

A summary of the amortization of the remaining scheduled credits for the prepaid capital contributions is as follows:

Credits Due During Fiscal Years Ending May 31	Principal	Interest	Total
2021	\$ 144,045	\$ 185,042	\$ 329,087
2022	151,475	177,611	329,086
2023	159,288	169,799	329,087
2024	167,505	161,581	329,086
2025	176,147	152,940	329,087
2026-2030	1,026,822	618,610	1,645,432
2031-2035	1,185,140	325,612	1,510,752
2036-2039	552,633	61,686	614,319
	<u>\$ 3,563,055</u>	<u>\$ 1,852,881</u>	<u>\$ 5,415,936</u>

Effective January 1, 2010, the Authority adopted a rate order which provided for the reimbursement to the District for costs incurred by the District to modify its system to accept surface water from the Authority. Such "Chloramine Credit" will be determined by the Authority upon completion and operation of the District's Chloramine System. The Chloramine Credit will be credited monthly to the amounts payable to the Authority for water used by the District over a 30-year period at 6% interest. During the fiscal year ended May 31, 2011, the Authority determined that the allowable costs of construction were \$273,749.

During the fiscal year ended May 31, 2020, the District received chloramine credits of \$19,887. Of this amount, \$5,428 was a repayment of principal and \$14,459 was interest.

A summary of the amortization of the remaining scheduled chloramine credits is as follows:

Credits Due During Fiscal Years Ending May 31	Principal	Interest	Total
2021	\$ 5,769	\$ 14,119	\$ 19,888
2022	6,129	13,758	19,887
2023	6,514	13,374	19,888
2024	6,921	12,966	19,887
2025	7,355	12,533	19,888
2026-2030	44,291	55,147	99,438
2031-2035	60,013	39,425	99,438
2036-2040	81,313	18,124	99,437
2041	16,120	453	16,573
	<u>\$ 234,425</u>	<u>\$ 179,899</u>	<u>\$ 414,324</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 10: GROUNDWATER BANK CERTIFICATES

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of the disincentive fee assessed by the HGSD for ground water pumpage in excess of the District's permit as amended. At May 31, 2020, the District had in its possession certificates totaling 73,668 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$31,380 at May 31, 2020.

BILMA PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 800,000	\$ 800,000	\$ 846,312	\$ 46,312
Water service	650,000	650,000	596,434	(53,566)
Sewer service	810,000	800,000	826,880	26,880
Surface water fees	775,000	775,000	745,612	(29,388)
Penalty	25,000	20,000	20,438	438
Tap connection and inspection fees	25,000	25,000	46,731	21,731
Interest on surface water chloramine costs	0	0	14,459	14,459
Interest on prepaid surface water capital contribution	348,975	348,975	192,105	(44,939)
Interest on deposits	35,000	50,000	88,787	38,787
Other revenues	2,500	2,500	8,423	5,923
TOTAL REVENUES	<u>3,471,475</u>	<u>3,471,475</u>	<u>3,386,181</u>	<u>(85,294)</u>
EXPENDITURES				
Service operations:				
Professional fees	232,000	222,000	277,847	55,847
Contracted services	115,750	120,750	119,423	(1,327)
Utilities	135,000	135,000	128,087	(6,913)
Surface water fees	1,100,000	1,100,000	1,007,345	(92,655)
Repairs and maintenance	424,400	490,000	345,931	(144,069)
Other operating expenditures	104,000	114,000	113,519	(481)
Garbage disposal	335,000	335,000	328,484	(6,516)
Administrative expenditures	138,325	178,300	127,403	(50,897)
Capital outlay	887,000	1,561,000	449,681	(1,111,319)
TOTAL EXPENDITURES	<u>3,471,475</u>	<u>4,256,050</u>	<u>2,897,720</u>	<u>(1,358,330)</u>
EXCESS REVENUES (EXPENDITURES)	0	(784,575)	488,461	1,273,036
FUND BALANCE, BEGINNING OF YEAR	<u>9,332,974</u>	<u>9,332,974</u>	<u>9,332,974</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,332,974</u>	<u>\$ 8,548,399</u>	<u>\$ 9,821,435</u>	<u>\$ 1,273,036</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

MAY 31, 2020

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Certificates of Deposit
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

BILMA PUBLIC UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES (Continued)
MAY 31, 2020

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	1,449	1,448	1.0	1,448
1"	333	331	2.5	828
1-1/2"	6	6	5.0	30
2"	24	24	8.0	192
3"	2	2	15.0	30
4"	2	2	25.0	50
6"	2	2	50.0	100
8"	3	3	80.0	240
10"	0	0	115.0	0
Total Water	<u>1,821</u>	<u>1,818</u>		<u>2,918</u>
Total Wastewater	<u>1,799</u>	<u>1,796</u>	1.0	<u>1,796</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 245,613
 Gallons billed to customers (unaudited): 233,429

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 95%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

BILMA PUBLIC UTILITY DISTRICT
EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 10,950	\$	\$	\$ 10,950
Legal	169,024	5,149	1,407	175,580
Engineering	97,873			97,873
	<u>277,847</u>	<u>5,149</u>	<u>1,407</u>	<u>284,403</u>
Contracted services:				
Bookkeeping	20,731			20,731
Operation and billing	98,692			98,692
Tax assessor-collector		23,760		23,760
Central appraisal district		18,859		18,859
	<u>119,423</u>	<u>42,619</u>	<u>0</u>	<u>162,042</u>
Utilities	<u>128,087</u>	<u>0</u>	<u>0</u>	<u>128,087</u>
Surface water fees:				
Ground water pumpage fees	320,971			320,971
Purchased surface water	686,374			686,374
	<u>1,007,345</u>	<u>0</u>	<u>0</u>	<u>1,007,345</u>
Repairs and maintenance	<u>345,931</u>	<u>0</u>	<u>0</u>	<u>345,931</u>
Other operating expenditures:				
Sludge hauling	31,923			31,923
Chemicals	35,355			35,355
Laboratory costs	30,587			30,587
Sewer inspection costs	525			525
Reconnection costs	8,178			8,178
TCEQ assessment	6,951			6,951
	<u>113,519</u>	<u>0</u>	<u>0</u>	<u>113,519</u>
Garbage disposal	<u>328,484</u>	<u>0</u>	<u>0</u>	<u>328,484</u>
Administrative expenditures:				
Director's fees	19,500			19,500
Office supplies and postage	39,983			39,983
Insurance	27,802	50		27,852
Election costs	17,623			17,623
Permit fees	7,026			7,026
Other	15,469	12,536		28,005
	<u>127,403</u>	<u>12,586</u>	<u>0</u>	<u>139,989</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
EXPENDITURES (Continued)
FOR THE YEAR ENDED MAY 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 420,383	\$	\$ 230,993	\$ 651,376
Tap connection costs	29,298			29,298
	<u>449,681</u>	<u>0</u>	<u>230,993</u>	<u>680,674</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>1,325,000</u>	<u>0</u>	<u>1,325,000</u>
Interest and fees:				
Interest		540,770		540,770
Paying agent fees		3,600		3,600
	<u>0</u>	<u>544,370</u>	<u>0</u>	<u>544,370</u>
TOTAL EXPENDITURES	<u>\$ 2,897,720</u>	<u>\$ 1,929,724</u>	<u>\$ 232,400</u>	<u>\$ 5,059,844</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED MAY 31, 2020

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 2,533,445	\$ 1,803,391	\$ 61,680	\$ 4,398,516
Maintenance tax receipts		846,312		846,312
Transfer of maintenance taxes	843,964			843,964
Principal portion of NHCRWA credits received	142,409			142,409
Receipt of interfund receivable	6,394			6,394
Increase in customer and builder deposits	4,050			4,050
Overpayments from taxpayers		3,497		3,497
	<u>3,530,262</u>	<u>2,653,200</u>	<u>61,680</u>	<u>6,245,142</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED				
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	2,416,401	55,924	1,407	2,473,732
Capital outlay	449,681		265,285	714,966
Debt service		1,869,370		1,869,370
Payment of interfund payable			6,394	6,394
Transfer of maintenance taxes		843,964		843,964
Refund of taxpayer overpayments		6,938		6,938
	<u>2,866,082</u>	<u>2,776,196</u>	<u>273,086</u>	<u>5,915,364</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED				
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	664,180	(122,996)	(211,406)	329,778
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>5,644,502</u>	<u>2,896,059</u>	<u>3,989,010</u>	<u>12,529,571</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 6,308,682</u>	<u>\$ 2,773,063</u>	<u>\$ 3,777,604</u>	<u>\$12,859,349</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

MAY 31, 2020

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 6750653489	2.50%	7/15/20	\$ 518,654	\$ 11,403
No. 66000571	2.10%	9/07/20	240,000	3,687
No. 5000018118	1.54%	2/07/21	<u>242,707</u>	<u>1,167</u>
			<u>\$ 1,001,361</u>	<u>\$ 16,257</u>
TexPool				
No. 7890000002	Market	On demand	<u>\$ 4,853,178</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 9009003963	2.60%	6/30/20	\$ 206,660	\$ 4,931
No. 6000022001	2.60%	7/02/20	206,753	4,919
No. 3116003274	2.60%	7/03/20	206,816	4,906
No. 1852000807	2.65%	8/11/20	105,810	2,258
No. 51202205	1.55%	2/03/21	<u>240,000</u>	<u>1,203</u>
			<u>\$ 966,039</u>	<u>\$ 18,217</u>
TexPool				
No. 27890000003	Market	On demand	<u>\$ 1,383,814</u>	<u>\$ 0</u>
CAPITAL PROJECTS FUND				
TexPool				
No. 27890000001	Market	On demand	<u>\$ 3,772,041</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 11,976,433</u>	<u>\$ 34,474</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2020

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 15,633	\$ 35,198
Additions and corrections to prior year taxes	<u>(321)</u>	<u>(716)</u>
Adjusted receivable, beginning of year	15,312	34,482
2019 ADJUSTED TAX ROLL	<u>847,416</u>	<u>1,744,679</u>
Total to be accounted for	862,728	1,779,161
Tax collections: Current tax year	(835,716)	(1,720,591)
Prior tax years	<u>(10,596)</u>	<u>(21,928)</u>
RECEIVABLE, END OF YEAR	<u>\$ 16,416</u>	<u>\$ 36,642</u>
RECEIVABLE, BY TAX YEAR		
2008	\$ 140	\$ 728
2010	108	563
2011	108	600
2012	120	588
2013	145	634
2014	194	728
2015	286	716
2016	307	778
2017	1,607	3,716
2018	1,701	3,503
2019	<u>11,700</u>	<u>24,088</u>
RECEIVABLE, END OF YEAR	<u>\$ 16,416</u>	<u>\$ 36,642</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED MAY 31, 2020

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 90,846,891	\$ 90,816,544	\$ 88,708,749	\$ 84,237,969
Improvements	430,788,001	408,969,656	397,622,052	389,143,018
Personal property	4,466,593	4,565,661	5,673,588	5,884,706
Less exemptions	<u>(27,620,296)</u>	<u>(26,533,525)</u>	<u>(26,431,183)</u>	<u>(24,676,047)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 498,481,189</u>	 <u>\$ 477,818,336</u>	 <u>\$ 465,573,206</u>	 <u>\$ 454,589,646</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.35000	\$ 0.35000	\$ 0.37000	\$ 0.38000
Maintenance tax rates	<u>0.17000</u>	<u>0.17000</u>	<u>0.16000</u>	<u>0.15000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.52000</u>	 <u>\$ 0.52000</u>	 <u>\$ 0.53000</u>	 <u>\$ 0.53000</u>
 TAX ROLLS	 <u>\$ 2,592,095</u>	 <u>\$ 2,484,621</u>	 <u>\$ 2,467,504</u>	 <u>\$ 2,409,283</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>98.6 %</u>	 <u>99.8 %</u>	 <u>99.8 %</u>	 <u>99.9 %</u>

*Maximum tax rate approved by voters on August 12, 1978: \$0.25

BILMA PUBLIC UTILITY DISTRICT
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS
MAY 31, 2020

Series 2012 Refunding			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due November 1</u>	<u>Interest Due November 1, May 1</u>	<u>Total</u>
2021	\$ 1,230,000	\$ 18,450	\$ 1,248,450
Series 2012			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due November 1</u>	<u>Interest Due November 1, May 1</u>	<u>Total</u>
2021	\$	\$ 99,925	\$ 99,925
2022		99,925	99,925
2023		99,925	99,925
2024		99,925	99,925
2025		99,925	99,925
2026		99,925	99,925
2027		99,925	99,925
2028		99,925	99,925
2029	585,000	91,150	676,150
2030	620,000	73,075	693,075
2031	660,000	53,875	713,875
2032	695,000	33,549	728,549
2033	740,000	11,562	751,562
TOTALS	<u>\$ 3,300,000</u>	<u>\$ 1,062,611</u>	<u>\$ 4,362,611</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

MAY 31, 2020

Series 2013 Refunding			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due November 1</u>	<u>Interest Due November 1, May 1</u>	<u>Total</u>
2021	\$ 10,000	\$ 82,650	\$ 92,650
2022	885,000	69,225	954,225
2023	915,000	42,225	957,225
2024	<u>950,000</u>	<u>14,250</u>	<u>964,250</u>
TOTALS	<u>\$ 2,760,000</u>	<u>\$ 208,350</u>	<u>\$ 2,968,350</u>

Series 2016 Refunding			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due November 1</u>	<u>Interest Due November 1, May 1</u>	<u>Total</u>
2021	\$ 130,000	\$ 69,388	\$ 199,388
2022	130,000	66,671	196,671
2023	130,000	63,954	193,954
2024	140,000	61,132	201,132
2025	675,000	52,616	727,616
2026	710,000	38,143	748,143
2027	720,000	23,199	743,199
2028	<u>750,000</u>	<u>7,838</u>	<u>757,838</u>
TOTALS	<u>\$ 3,385,000</u>	<u>\$ 382,941</u>	<u>\$ 3,767,941</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

MAY 31, 2020

<u>Due During Fiscal Years Ending May 31</u>	<u>Series 2018</u>		
	<u>Principal Due November 1</u>	<u>Interest Due November 1, May 1</u>	<u>Total</u>
2021	\$	\$ 231,137	\$ 231,137
2022		231,138	231,138
2023		231,137	231,137
2024		231,138	231,138
2025	350,000	225,887	575,887
2026	345,000	215,462	560,462
2027	365,000	204,812	569,812
2028	375,000	193,713	568,713
2029	565,000	179,612	744,612
2030	575,000	162,513	737,513
2031	580,000	145,187	725,187
2032	590,000	126,900	716,900
2033	590,000	108,094	698,094
2034	1,380,000	74,725	1,454,725
2035	<u>1,445,000</u>	<u>25,288</u>	<u>1,470,288</u>
TOTALS	<u>\$ 7,160,000</u>	<u>\$ 2,586,743</u>	<u>\$ 9,746,743</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

MAY 31, 2020

<u>Due During Fiscal Years Ending May 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2021	\$ 1,370,000	\$ 501,550	\$ 1,871,550
2022	1,015,000	466,959	1,481,959
2023	1,045,000	437,241	1,482,241
2024	1,090,000	406,445	1,496,445
2025	1,025,000	378,428	1,403,428
2026	1,055,000	353,530	1,408,530
2027	1,085,000	327,936	1,412,936
2028	1,125,000	301,476	1,426,476
2029	1,150,000	270,762	1,420,762
2030	1,195,000	235,588	1,430,588
2031	1,240,000	199,062	1,439,062
2032	1,285,000	160,449	1,445,449
2033	1,330,000	119,656	1,449,656
2034	1,380,000	74,725	1,454,725
2035	<u>1,445,000</u>	<u>25,288</u>	<u>1,470,288</u>
TOTALS	<u>\$ 17,835,000</u>	<u>\$ 4,259,095</u>	<u>\$ 22,094,095</u>

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED MAY 31, 2020

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series	2012 Refunding	2012	2013 Refunding
Interest Rate	3.00%	3.00% to 3.125%	3.00%
Dates Interest Payable	November 1/ May 1	November 1/ May 1	November 1/ May 1
Maturity Dates	November 1, 2020	November 1, 2028/2032	November 1, 2020/2023
Bonds Outstanding at Beginning of Current Year	\$ 2,410,000	\$ 3,300,000	\$ 2,770,000
Less Retirements	<u>(1,180,000)</u>	<u>0</u>	<u>(10,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 1,230,000</u>	<u>\$ 3,300,000</u>	<u>\$ 2,760,000</u>
Current Year Interest Paid	<u>\$ 54,600</u>	<u>\$ 99,925</u>	<u>\$ 82,950</u>

Bond Descriptions and Original Amount of Issue

- (1) Bilma Public Utility District Unlimited Tax Refunding Bonds, Series 2012 (\$7,755,000)
- (2) Bilma Public Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (\$3,300,000)
- (3) Bilma Public Utility District Unlimited Tax Refunding Bonds, Series 2013 (\$2,990,000)

Paying Agent/Registrar

- (1) (2) (3) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 60,000,000	\$ 8,500,000	38,500,000
Amount Issued:	50,304,365	0	340,000
Remaining to be Issued:	9,695,635	8,500,000	38,160,000

*Tax bonds include the bonds which also may be used for refunding purposes.

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)
FOR THE YEAR ENDED MAY 31, 2020

	<u>(4)</u>	<u>(5)</u>	<u>Totals</u>
Bond Series	2016 Refunding	2018	
Interest Rate	2.09%	3.00% to 3.50%	
Dates Interest Payable	November 1/ May 1	November 1/ May 1	
Maturity Dates	November 1, 2020/2027	November 1, 2024/2034	
Bonds Outstanding at Beginning of Current Year	\$ 3,520,000	\$ 7,160,000	\$ 19,160,000
Less Retirements	<u>(135,000)</u>	<u>0</u>	<u>(1,325,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,385,000</u>	<u>\$ 7,160,000</u>	<u>\$ 17,835,000</u>
Current Year Interest Paid	<u>\$ 72,157</u>	<u>\$ 231,138</u>	<u>\$ 540,770</u>

Bond Descriptions and Original Amount of Issue

- (4) Bilma Public Utility District Unlimited Tax Refunding Bonds, Series 2016 (\$3,585,000)
- (5) Bilma Public Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018 (\$7,160,000)

Paying Agent/Registrar

- (4) (5) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Net Debt Service Fund deposits and investments balances as of May 31, 2020:	\$2,779,331
Average annual debt service payment for remaining term of all debt:	1,472,940

BILMA PUBLIC UTILITY DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED MAY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
REVENUES										
Property taxes	\$ 846,312	\$ 810,745	\$ 744,217	\$ 678,732	\$ 687,966	25.1 %	25.0 %	24.5 %	23.9 %	26.8 %
Water service	596,434	582,318	605,950	607,797	604,801	17.6	18.0	20.0	21.3	23.5
Sewer service	826,880	804,188	791,626	772,191	648,857	24.4	24.8	26.0	27.0	25.2
Surface water fees	745,612	642,761	525,378	320,785	304,256	22.0	19.8	17.3	11.2	11.8
Penalty	20,438	24,593	20,319	21,738	22,357	0.6	0.8	0.7	0.8	0.9
Tap connection and inspection fees	46,731	69,309	83,758	208,869	63,655	1.4	2.1	2.8	7.3	2.5
Interest on surface water chloramine costs	14,459	14,779	15,081	15,364	15,631	0.4	0.5	0.5	0.5	0.6
Interest on prepaid surface water capital contribution	192,105	198,824	205,210	211,285	217,059	5.7	6.1	6.8	7.4	8.4
Interest on deposits and investments	88,787	83,300	34,812	12,557	6,191	2.6	2.6	1.1	0.4	0.2
Other revenues	8,423	9,955	9,075	7,090	3,475	0.2	0.3	0.3	0.2	0.1
TOTAL REVENUES	<u>3,386,181</u>	<u>3,240,772</u>	<u>3,035,426</u>	<u>2,856,408</u>	<u>2,574,248</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	277,847	276,737	239,904	205,964	208,768	8.2	8.5	7.9	7.2	8.1
Contracted services	119,423	113,653	112,247	107,175	107,107	3.5	3.5	3.7	3.8	4.2
Utilities	128,087	128,817	128,774	128,004	125,499	3.8	4.0	4.2	4.5	4.9
Surface water fees	1,007,345	896,528	892,486	737,244	639,281	29.7	27.7	29.5	25.7	24.8
Repairs and maintenance	345,931	511,368	481,250	386,832	298,655	10.2	15.8	15.9	13.5	11.6
Other operating expenditures	113,519	123,662	110,556	112,215	103,808	3.4	3.8	3.6	3.9	4.0
Garbage disposal	328,484	297,989	285,967	275,995	270,486	9.7	9.2	9.4	9.7	10.5
Administrative expenditures	127,403	113,406	100,814	87,355	81,808	3.8	3.5	3.3	3.1	3.2
Capital outlay	449,681	22,452	33,638	142,541	200,656	13.3	0.7	1.1	5.0	7.8
TOTAL EXPENDITURES	<u>2,897,720</u>	<u>2,484,612</u>	<u>2,385,636</u>	<u>2,183,325</u>	<u>2,036,068</u>	<u>85.6</u>	<u>76.7</u>	<u>78.6</u>	<u>76.4</u>	<u>79.1</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 488,461</u>	<u>\$ 756,160</u>	<u>\$ 649,790</u>	<u>\$ 673,083</u>	<u>\$ 538,180</u>	<u>14.4 %</u>	<u>23.3 %</u>	<u>21.4 %</u>	<u>23.6 %</u>	<u>20.9 %</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>1,818</u>	<u>1,806</u>	<u>1,799</u>	<u>1,750</u>	<u>1,702</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>1,796</u>	<u>1,784</u>	<u>1,777</u>	<u>1,729</u>	<u>1,681</u>					

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND

FOR YEARS ENDED MAY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
REVENUES										
Property taxes	\$ 1,742,519	\$ 1,672,366	\$ 1,723,394	\$ 1,719,237	\$ 1,726,592	96.8 %	95.7 %	97.5 %	98.6 %	98.7 %
Penalty and interest	16,111	18,487	17,842	12,841	14,196	0.9	1.1	1.0	0.7	0.8
Accrued interest on bonds received at date of sale	0	10,915	0	0	0	0.0	0.6	0.0	0.0	0.0
Interest on deposits and other revenues	41,509	44,787	25,827	13,005	9,101	2.3	2.6	1.5	0.7	0.5
TOTAL REVENUES	1,800,139	1,746,555	1,767,063	1,745,083	1,749,889	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	5,149	5,680	5,823	2,880	4,405	0.3	0.3	0.3	0.2	0.3
Contracted services	42,619	42,258	38,064	43,585	45,011	2.4	2.4	2.2	2.5	2.6
Other expenditures	12,586	13,034	21,400	9,001	8,546	0.7	0.7	1.2	0.5	0.5
Debt service:										
Principal retirement	1,325,000	1,285,000	1,245,000	1,155,000	1,140,000	73.6	73.7	70.5	66.2	65.1
Interest and fees	544,370	487,064	391,138	423,873	534,200	30.2	27.9	22.1	24.3	30.5
TOTAL EXPENDITURES	1,929,724	1,833,036	1,701,425	1,634,339	1,732,162	107.2	105.0	96.3	93.7	99.0
EXCESS REVENUES (EXPENDITURES)	\$ (129,585)	\$ (86,481)	\$ 65,638	\$ 110,744	\$ 17,727	(7.2) %	(5.0) %	3.7 %	6.3 %	1.0 %

BILMA PUBLIC UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

MAY 31, 2020

Complete District Mailing Address: Bilma Public Utility District
c/o Radcliffe Bobbitt Adams Polley PLLC
2929 Allen Parkway, Suite 3450
Houston, Texas 77019

District Business Telephone No.: 713-237-1221

Submission date of the most recent District Registration Form: June 26, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
H. Mark Stoebner c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/07/16- 5/02/20*	\$ 4,500	\$ 844	President
Dennis E. Winkler c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/06/18- 5/07/22	3,600	2,240	Vice President
F. Anthony Musgrave c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/06/18- 5/07/22	3,600	1,376	Secretary
Cynthia Day c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/07/16- 5/02/20*	3,900	1,666	Assistant Secretary
Steve Hoffmann c/o Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	Elected 5/06/18- 5/07/22	3,900	1,697	Director

*Election postponed to November 3, 2020 due to COVID 19.

See accompanying independent auditor's report.

BILMA PUBLIC UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)MAY 31, 2020CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Radcliffe Bobbitt Adams Polley PLLC 2929 Allen Parkway, Suite 3450 Houston, Texas 77019	12/02/04	177,474	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	12/02/04	5,149	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	11/81	23,331	Bookkeeper
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	06/05/14	0	Investment Officer
Hays Utility South Corporation P.O. Box 1209 Spring, Texas 77383	3/81	610,755	Operator
Jones Carter 1575 Sawdust Road, Suite 400 The Woodlands, Texas 77380	2/82	527,394	Engineer
Wheeler & Associates, Inc. 6935 Barney Road, Suite 110 Houston, Texas 77092	12/06/07	34,395	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	18,859	Central Appraisal District
Rathmann & Associates, L.P. 8584 Katy Freeway, Suite 250 Houston, Texas 77024	5/1/03	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1992	10,950	Independent Auditor

See accompanying independent auditor's report.

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND
INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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

