

## OFFICIAL STATEMENT DATED MARCH 24, 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 EXCLUDABLE 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" FOR A DISCUSSION ON THE OPINION OF BOND COUNSEL.

THE BONDS HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**NEW ISSUE — BOOK ENTRY ONLY**

**Insured Rating: S&P: "AA" (stable outlook)**

**Underlying Rating: S&P: "A-" (stable outlook)**

See "MUNICIPAL BOND RATINGS" and "BOND INSURANCE" herein.

**\$40,000,000**

### **MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**

*(A public nonprofit local government corporation acting on behalf of the City of Houston, Texas)*

### **TAX INCREMENT CONTRACT REVENUE BONDS, SERIES 2021**

Interest Accrual Date: Delivery Date

Due: September 1, as shown on the inside front cover

Memorial-Heights Redevelopment Authority, a public nonprofit local government corporation (the "Authority"), was established by the City of Houston, Texas (the "City") to aid, assist, and act on behalf of the City in the performance of the City's governmental functions to promote the common good and general welfare of the area included within Reinvestment Zone Number Five, City of Houston, Texas (the "Zone") and neighboring areas. The Zone was created by the City pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code, as amended (the "TIF Act") to promote the redevelopment of the land within the boundaries of the Zone, currently consisting of approximately 1,410 acres located north and/or west of the central business district of the City generally along Buffalo or White Oak Bayous or within the neighborhood known as The Heights.

Interest on the Memorial-Heights Redevelopment Authority Tax Increment Contract Revenue Bonds, Series 2021 (the "Bonds") accrues from the Delivery Date (defined below) and is payable each March 1 and September 1, commencing September 1, 2021, until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable by Regions Bank, an Alabama banking corporation, as initial paying agent/registrant (the "Paying Agent/Registrar").

The definitive Bonds will initially be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the book-entry-only system described herein. DTC will act as securities depository with respect to the Bonds. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to DTC's participants, which will make distributions of such amounts to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry-Only System" herein.

The Bonds are being issued pursuant to the terms and conditions of a City ordinance approving the issuance of the Bonds, a Bond Order approved by the Board of Directors of the Authority on March 4, 2021, a Pricing Certificate authorized by such Bond Order, and an Indenture of Trust dated as of March 4, 2021 (the "Indenture"), between the Authority and Regions Bank, an Alabama banking corporation, as trustee (the "Trustee"). The Bonds are the first series of bonds to be issued under the Indenture. All parity bonds issued under the Indenture, including the Bonds and any subsequently issued parity bonds (collectively the "Contract Revenue Bonds"), are equally and ratably secured under the Indenture.

Pursuant to the Indenture, the Authority has pledged the Pledged Tax Increments (as defined herein) to payment of the Contract Revenue Bonds. The Contract Revenue Bonds are payable solely from the Pledged Tax Increments, certain other funds on deposit with the Trustee or which may be deposited with the Trustee in the future, and earnings and investments thereon (the "Pledged Revenues"). See "SOURCE OF AND SECURITY FOR PAYMENT—Pledge of Revenues."

**The Bonds are limited obligations of the Authority, payable solely from the Pledged Revenues. The Bonds are obligations of the Authority and do not constitute, within the meaning of any statutory or constitutional provision, an indebtedness, an obligation or a loan of credit of the City of Houston, Texas, the State of Texas, or any other municipality, county, or other municipal or political corporation or subdivision of the State of Texas. The City of Houston, Texas is not obligated to make payments on the Bonds. The Authority does not have the power to levy taxes or assess fees for any purpose, including payment of the Bonds.**



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

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**See MATURITY SCHEDULE on the inside front cover**

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The Bonds are offered by the Underwriters subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel. Certain other matters will be passed upon on behalf of the Authority by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Certain matters will be passed upon on behalf of the Underwriters by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds is expected through the facilities of DTC on or about April 20, 2021 ("Delivery Date").

**SAMCO CAPITAL**

**RAYMOND JAMES**

**ESTRADA HINOJOSA**

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
(a public nonprofit local government corporation acting on behalf of the City of Houston, Texas)  
**TAX INCREMENT CONTRACT REVENUE BONDS, SERIES 2021**

**MATURITY SCHEDULE**

**Serial Bonds**

Maturity September 1	Principal Amount	CUSIP Number (b)	Interest Rate (%)	Initial Reoffering Yield (%) (c)
2021	\$ 975,000	58601P AA3	5.000%	0.200%
2022	835,000	58601P AB1	5.000%	0.320%
2023	880,000	58601P AC9	5.000%	0.500%
2024	925,000	58601P AD7	5.000%	0.670%
2025	970,000	58601P AE5	5.000%	0.840%
2026	1,020,000	58601P AF2	5.000%	0.990%
2027	1,075,000	58601P AG0	5.000%	1.150%
2028	1,130,000	58601P AH8	5.000%	1.310%
2029	1,190,000	58601P AJ4	5.000%	1.440%
2030	1,250,000	58601P AK1	5.000%	1.620%
2031 (a)	1,300,000	58601P AL9	3.000%	1.810%
2032 (a)	1,340,000	58601P AM7	3.000%	1.900%
2033 (a)	1,380,000	58601P AN5	3.000%	1.970%
2034 (a)	1,415,000	58601P AP0	2.000%	2.220%
2035 (a)	1,445,000	58601P AQ8	2.125%	2.300%
2036 (a)	1,475,000	58601P AR6	2.125%	2.370%
2037 (a)	1,510,000	58601P AS4	2.250%	2.430%

**Term Bonds**

**\$3,145,000 3.000% Term Bond due September 1, 2039<sup>(a)(d)</sup> CUSIP<sup>(b)</sup>: 58601P AU9 Initial Reoffering Yield<sup>(c)</sup> 2.360%**  
**\$6,885,000 3.000% Term Bond due September 1, 2043<sup>(a)(d)</sup> CUSIP<sup>(b)</sup>: 58601P AY1 Initial Reoffering Yield<sup>(c)</sup> 2.550%**  
**\$9,855,000 3.000% Term Bond due September 1, 2048<sup>(a)(d)</sup> CUSIP<sup>(b)</sup>: 58601P BD6 Initial Reoffering Yield<sup>(c)</sup> 2.640%**

- (a) Bonds maturing on or after September 1, 2031, are subject to redemption in whole or from time to time in part, at the option of the Authority, on September 1, 2030, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein 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 purchasers of the Bonds. None of the Authority, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriters for offers to the public and which may be subsequently changed by the Underwriters and is the sole responsibility of the Underwriters. The initial reoffering yields indicated here represent the lower of the yield resulting when priced to maturity or to the first optional redemption date.
- (d) The Term Bonds are subject to mandatory redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

**BOARD OF DIRECTORS**  
**REINVESTMENT ZONE NUMBER FIVE,**  
**CITY OF HOUSTON, TEXAS**  
**and**  
**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY<sup>(a)</sup>**

<b><u>Position</u></b>	<b><u>Name</u></b>	<b><u>Appointed to Zone By:</u></b>	<b><u>Title/Office</u></b>
1	Dr. Robert M. Stein	City of Houston	Director
2	Ann Lents	City of Houston	Chair
3	Bryan Brown	City of Houston	Director
4	Janice Hale-Harris	City of Houston	Secretary
5	Alejandro Colom	City of Houston	Vice Chair
6	Christopher David Manriquez	Houston Independent School District	Director
7	Marvin Pierre	City of Houston	Director

(a) The ordinance creating Reinvestment Zone Number Five, City of Houston, Texas (the “Zone”) created a board of directors of the Zone (the “Zone Board”), consisting of seven persons. The directors of the Zone Board were appointed by the City and Houston Independent School District (“HISD”), as shown above, in accordance with the terms of the TIF Act. The Articles of Incorporation of the Authority call for a seven-member Board of Directors (the “Board”). The Authority’s bylaws provide that Positions 1 through 5 are to be appointed by the Mayor of the City with the consent and approval of the City Council, and Positions 6 and 7 are reserved for nominees of other taxing units participating in the Zone. After a participating taxing unit nominates a person to the Board, the Mayor will then appoint that person to the Board, subject to confirmation by the City Council. If there is no nominee, the position will be filled by the Mayor of the City with the consent and approval of the City Council. The members of the Board of Directors of the Authority are the same as the members of the Board of Directors of the Zone.

**Professional Consultants**

Sherry Weesner	<i>President</i>
Masterson Advisors, LLC	<i>Financial Advisor</i>
Sanford Kuhl Hagan Kugle Parker Kahn LLP	<i>General Counsel and Bond Counsel</i>
Jones/Carter	<i>Engineering Consultant</i>
The Goodman Corporation	<i>Planning and Grants Consultant</i>
Equi-Tax, Inc.	<i>Tax Consultant</i>
The Morton Accounting Services	<i>Bookkeeper</i>
McCall Gibson Swedlund Barfoot PLLC	<i>Auditor</i>
Norton Rose Fulbright US LLP	<i>Disclosure Counsel</i>
Regions Bank	<i>Trustee/Paying Agent/Registrar</i>

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## USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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 representation must not be relied upon as having been authorized by the Authority.

All of the summaries of the statutes, financing documents, resolutions, contracts, engineering and other related reports referenced or described in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Authority, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in the Rule.

Neither the Authority nor the Underwriters, as defined herein, make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

The Underwriters, as defined herein, 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, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Regions Bank, in each of its capacities, including, but not limited to, Trustee, Bond Registrar, and Paying Agent, has not participated in the preparation of this Official Statement and assumes no responsibility for its content, including, without limitation, the accuracy or completeness of the information concerning the Authority or any other party contained herein or for any failure by any of such parties to disclose events that may have occurred and may affect the significance or accuracy of such information.

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

## SALE AND DISTRIBUTION OF THE BONDS

### The Underwriters

The Bonds are being purchased, subject to certain conditions, by SAMCO Capital Markets, Inc., as representative (the "*Representative*") of the underwriters named on the cover page (collectively, the "*Underwriters*") pursuant to a bond purchase agreement with the Authority at a price of \$42,695,813.20 (which represents the principal amount of the Bonds, plus net original issue premium of \$2,872,124.50 and less an Underwriter's discount of \$176,311.30). The Representative, on behalf of the Underwriters, will be obligated to purchase all of the Bonds, if any are purchased. The Bonds may be offered and sold to certain dealers and others at a price lower than public offering prices, and such public prices may be changed from time to time by the Underwriters. See "—Prices and Marketability" below.

## Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the Authority of a certificate executed and delivered by the Underwriters on or before the Delivery Date 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 Authority has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms with respect to 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 prices, 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 which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Authority has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of the 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.

## Securities Laws

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

## FORWARD-LOOKING STATEMENTS

This Official Statement contains, in part, forward-looking statements and projections, as well as estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Forward-looking statements and projections may be affected by known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance or achievements expressed or implied by such forward-looking statements. Investors are cautioned that actual results could differ materially from those set forth in the forward-looking statements.

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 Authority, the Zone, or other matters described herein since the date hereof.

## RELIANCE ON PAST FINANCIAL PERFORMANCE

Past financial performance does not necessarily predict future performance, which may be affected by numerous anticipated and unanticipated conditions which did not exist at the time of the prior financial performance. See “INVESTMENT CONSIDERATIONS—Impact of COVID-19 or Other Infectious Disease Outbreak”. The financial and operating data contained herein are the latest available but are as of the dates and for the periods described herein, primarily prior to the COVID-19 Outbreak and measures instituted to slow it. Accordingly, they are not necessarily indicative of the Authority’s future financial condition.

## OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information and to the definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this summary statement from this Official Statement or to otherwise use it without the entire Official Statement.

### Creation and Development of the Zone

*Reinvestment Zone  
Number Five, City of  
Houston, Texas*

Reinvestment Zone Number Five, City of Houston, Texas (the “*Zone*”) was created on December 18, 1996 by the City Council of the City of Houston, Texas (the “*City*”), pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code, as amended (the “*TIF Act*”), to promote the redevelopment of the land within its boundaries. The *Zone* currently consists of approximately 1,410 acres located north and/or west of the central business district of the *City* generally along Buffalo or White Oak Bayous or within the neighborhood known as The Heights. The *Zone* stretches to Interstate 610 to the north and west, Interstate 45 to the east, and Clay Street to the south.

As originally created, the *Zone* contained approximately 88 acres (the “*Original Zone*”). Since creation, there have been four annexations of property into the *Zone*, resulting in the addition of approximately 1,575 acres (the “*Annexed Areas*”), and one removal of approximately 253 acres from the *Zone*, resulting in the current size of approximately 1,410 acres. See “APPENDIX A—Boundary Map.”

The *Zone* is currently scheduled to terminate on December 31, 2048.

*Project and Financing  
Plan*

As required under the *TIF Act*, the *Zone Board* adopted, and the City Council of the *City* approved, a Project Plan and Reinvestment *Zone Financing Plan*, which has been amended seven times (as amended, the “*Project and Financing Plan*”). The Project and Financing Plan sets out the public improvements, real estate acquisitions and other projects that are needed to induce development within the *Zone* (the “*Public Improvements*”). The cost of the Public Improvements, the cost of creation of the *Zone*, and related organizational costs (the “*Project Costs*”) constitute eligible project costs under the *TIF Act*. The Project and Financing Plan states that the Project Costs will be financed through the issuance of notes and bonds, as well as collaboration with developers and other entities for grant funding and partnerships.

*Status of Development*

The *City’s* taxable value in the *Zone* has increased from a base value of \$1,011,402,980 to a 2020 taxable value of \$2,564,108,264, resulting in an increase of \$1,552,705,284. Approximately 35 per cent of the tax base is composed of multifamily housing developments, which are the largest taxpayers in the *Zone*. Commercial or industrial property makes up approximately 32 per cent of the tax base and residential units make up approximately 26 per cent.

Six multifamily housing developments have recently been completed or are currently under construction within the *Zone*. Various retail projects have also been recently completed or are currently under construction. See “STATUS OF DEVELOPMENT.”

### The Bonds

*The Issuer*

Memorial-Heights Redevelopment Authority (the “*Authority*”), a public nonprofit local government corporation, was authorized to be established by the *City* in 1997 to aid, assist, and act on behalf of the *City* in the performance of the *City’s* governmental functions to promote the common good and general welfare of the area included within the *Zone* and neighboring areas. Pursuant to an agreement among the *City*, the *Zone* and the *Authority*, the *Authority* provides services to the *Zone* and is authorized to issue bonds payable from Tax Increments (as defined herein) derived from the *Zone* and transferred to the *Authority*.

The *Authority* is governed by a Board of Directors (the “*Board*”), whose members are appointed by the *City* (with one member nominated by Houston Independent School District (“*HISD*”)). The duration of the *Authority* is perpetual.



<i>Description</i>	The Memorial-Heights Redevelopment Authority Tax Increment Contract Revenue Bonds, Series 2021 (the “ <i>Bonds</i> ”) are issued in the aggregate principal amount of \$40,000,000. The Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount. Interest on the Bonds accrues from the date of delivery of the Bonds to the Underwriters (the “ <i>Delivery Date</i> ”) and is payable on each March 1 and September 1, commencing September 1, 2021, until the earlier of maturity or redemption. See “THE BONDS – Description.”
<i>Authority for Issuance</i>	The Bonds are authorized pursuant to a City ordinance approving the issuance of the Bonds, a Bond Order approved by the Board on March 4, 2021 (the “ <i>Bond Order</i> ”), a Pricing Certificate authorized by such Bond Order, and an Indenture of Trust dated as of March 4, 2021 (the “ <i>Indenture</i> ”), between the Authority and Regions Bank, an Alabama banking corporation, as trustee (the “ <i>Trustee</i> ”).
<i>Book-Entry Only System</i>	The Depository Trust Company (“ <i>DTC</i> ”), New York, New York, will act as securities depository of 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 and will be deposited with DTC. See “THE BONDS—Book Entry Only System.”
<i>Redemption</i>	Bonds maturing on or after September 1, 2031 are subject to redemption in whole, or from time to time in part, at the option of the Authority prior to their maturity dates on September 1, 2030 or on any date thereafter at a price equal to par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. In addition, the term bonds maturing on September 1 in the years 2039, 2043 and 2048 (the “ <i>Term Bonds</i> ”) are subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds</i>	Proceeds of the Bonds will be used for the purposes of (1) financing Project Costs in accordance with the Project and Financing Plan; (2) satisfying the Reserve Requirement for the Debt Service Reserve Fund (as defined herein); and (3) paying costs of issuance, all under and pursuant to the authority of the TIF Act and all other applicable law. See “PLAN OF FINANCING” and “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Municipal Bond Insurance and Reserve Fund Surety Policy</i>	Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“ <i>AGM</i> ” or the “ <i>Bond Insurer</i> ”) will issue its Municipal Bond Insurance Policy for the Bonds (the “ <i>Policy</i> ”). 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 Appendix D to this Official Statement. See “BOND INSURANCE.” Concurrently with the issuance of the Bonds, the Authority is purchasing a Reserve Fund Surety Policy (as defined herein) from AGM to fund the Reserve Requirement for the Bonds. See “SOURCE OF AND SECURITY FOR PAYMENT—Debt Service Reserve Fund.”
<i>Municipal Bond Ratings</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“ <i>S&amp;P</i> ”) has assigned a municipal bond rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by the Bond Insurer. S&P has assigned an underlying rating of “A-” to the Bonds with a stable outlook. The rating fee of S&P will be paid by the Authority; payment of any other rating fee will be the responsibility of the Underwriters. See “MUNICIPAL BOND RATINGS.”

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

<i>Tax Increments</i>	The City has agreed to deposit to the Tax Increment Fund for the Zone within the City Treasury (the “ <i>Tax Increment Fund</i> ”) its tax collections resulting from its taxation of the increase, if any, in the appraised taxable value of real property located in the Original Zone since January 1, 1997 and in each of the Annexed Areas since January 1 of the year in which they were annexed into the Zone (in each case, less the base year value of any property removed from the Zone).
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*Contract Tax  
Increments*

The City, the Authority and the Zone have entered into the Tri-Party Agreement (as defined herein) which sets forth, among other things, the agreement of the City, on behalf of itself and the Zone, to pay to the Authority the tax collections deposited to the Tax Increment Fund minus any expenses incurred by the City in connection with the collection of the Tax Increments and subject to the retention of a reserve of up to five percent of the moneys then available in the Tax Increment Fund (the Tax Increments net of such deductions and reserves referred to herein as the “*Contract Tax Increments*”). See “SOURCE OF AND SECURITY FOR PAYMENT—Tri-Party Agreement.”

*Pledged Revenues*

The Authority has agreed to reimburse two developers in the Zone for Public Improvements financed with funds advanced by the developers from a portion of the Contract Tax Increments generated from their projects (the “*Developer Related Tax Increments*”). The Contract Tax Increments needed to make these reimbursements are paid annually to the developers if and when they meet the requirements set forth in their agreements with the Authority and the Zone.

Once the Authority has subtracted the Developer Related Tax Increments from the Contract Tax Increments, it is required to transfer the remaining Contract Tax Increments (the “*Pledged Tax Increments*”) to the Trustee for deposit to the Revenue Fund (as defined herein). Once the Trustee has set aside debt service on the Bonds and any subsequently issued parity bonds (collectively, the “*Contract Revenue Bonds*”) for the succeeding twelve-month period, the Debt Service Reserve Fund has been fully funded, and the Trustee’s and Paying Agent/Registrar’s fees have been paid or reserved, the Trustee will deposit any surplus Pledged Tax Increments into a Surplus Fund (as defined herein) to be used for any lawful purpose under the TIF Act.

Pursuant to the Indenture, the Authority has pledged the Pledged Tax Increments, certain other funds on deposit with the Trustee or which may be deposited with the Trustee in the future, and earnings and investments thereon (the “*Pledged Revenues*”) to secure payment of the Contract Revenue Bonds. See “SOURCE OF AND SECURITY FOR PAYMENT—Pledge of Revenues.”

*Additional Parity  
Bonds*

The Authority has reserved the right to issue additional bonds payable from the Pledged Revenues on an equal and ratable basis with the Bonds (the “*Additional Parity Bonds*”), but only on the terms and conditions set out in the Indenture, including satisfaction of a debt service coverage test for Additional Parity Bonds other than those issued for refunding purposes that have the result of reducing or not increasing the annual debt service requirements on the remaining Contract Revenue Bonds. See “SOURCE OF AND SECURITY FOR PAYMENT – Additional Parity Bonds.”

*Limited Obligations*

The Bonds are limited obligations of the Authority, payable solely from the Pledged Revenues. The Bonds are obligations of the Authority and do not constitute, within the meaning of any statutory or constitutional provision, an indebtedness, an obligation or a loan of credit of the City, the State of Texas, or any other municipality, county, or other municipal or political corporation or subdivision of the State of Texas. The City is not obligated to make payments on the Bonds. The Authority does not have the power to levy taxes or assess fees for any purpose, including payment of the Bonds.

*Investment  
Considerations*

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

**Schedule 1: Selected Financial Information (unaudited)**

	<u>City</u>
2020 Certified Taxable Value (a)	\$ 2,564,108,264
Tax Increment Base (b)	<u>1,011,402,980</u>
2020 Captured Appraised Value (c)	\$ 1,552,705,284
2020 Total Tax Rate Contribution (d)	\$0.56184
Estimated Collection Rate (e)	99.26%
City Retention Fee	5%
Total Contract Tax Increments (f)	\$ 8,226,594
Less: Developer Related Tax Increment (g)	<u>337,580</u>
Total Pledged Tax Increments	\$ 7,889,014
Outstanding Debt (h)	\$ 40,000,000
Average Annual Debt Service (2022-2049)	2,121,613
Maximum Annual Debt Service (2030)	2,123,725
Coverage of FY2022 Pledged Tax Increments to:	
Average Annual Debt Service (2022-2049)	388%
Maximum Annual Debt Service (2030)	387%
Ratio of 2020 Incremental Appraised Value to Total Appraised Value in the Zone (i)	60.6%
Debt Service Reserve Requirement (j)	\$2,123,725

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- (a) Certified appraised values are established annually by the Harris County Appraisal District (the “*Appraisal District*”) for the current tax year, but are subject to change for a number of years thereafter. The State and City tax exemptions are deducted from the appraised value to produce taxable value. The 2020 certified taxable value shown is based on data provided by the Appraisal District and includes uncertified value of \$29,343,375 at the Appraisal District’s opinion of value. The uncertified accounts are generally being protested by the taxpayers and certified values for these accounts may be lower than the Appraisal District’s estimate. Only values that are certified by the Appraisal District are used to calculate tax due. The value shown here omits the value of the 2009 Annexed Area, which is minimal. See “FINANCIAL INFORMATION--Schedule 5: Tax Increment Collections” for the certified values for 2015 through 2020.
- (b) Base year for the Original Zone is 1997 and the base year for each of the Annexed Areas is January 1 of the year in which it was annexed into the Zone (in each case, less the base year value of any property removed from the Zone). The base year values for the Original Zone and each of the Annexed Areas (other than one annexation of 0.10 acre in 2009) have been aggregated and the total is shown here. For more detail, see “SCHEDULE 5: Tax Increment Collections.”
- (c) The Certified Incremental Appraised Value is the 2020 Certified Taxable Value less the Tax Increment Base. It is used to calculate the Tax Increments. See “SOURCE OF AND SECURITY FOR PAYMENT—General Statutory Requirements for Tax Increment Zones.”
- (d) The City contributes its full tax rate to the Zone.
- (e) The collection rate shown is an estimate based on a five-year average of total collections, and the actual collection rate may differ. See “RELIANCE ON PAST PERFORMANCE.” City tax payments are deposited into the General Fund of the City. Once such funds are accounted for and allocated to the Zone, the Tax Increments are deposited to the Tax Increment Fund for the Zone. The City Council must appropriate the monies in the Tax Increment Fund to the parties entitled to them before they are disbursed. Under the Tri-Party Agreement, the City is required to transfer Contract Tax Increments to the Authority prior to the first business day of July in each year. The appropriation of Contract Tax Increments to the City’s tax increment reinvestment zones is usually made in June of each year. By this time, tax

collections from the current tax year may not be equal to the collection rate shown but the Authority will also receive taxes from prior tax years which were collected since the prior transfer to the Authority.

- (f) Contract Tax Increments are calculated by multiplying the 2020 Captured Appraised Value by the 2020 Tax Rate Contribution, then multiplying the product by the Collection Rate and deducting the City Retention Fee. The 2020 tax rate was set in the fall of 2020 with payment by taxpayers due by January 31, 2021. Contract Tax Increments arising from these taxes are expected to be transferred to the Authority during 2021. Overpayments of Contract Tax Increments from prior years may be offset against the current year's Contract Tax Increments and may result in a significant reduction. Overpayments occur when taxpayers are successful in reducing the value of their properties and consequently their taxes in administrative or judicial proceedings which were pending when the Contract Tax Increments were paid to the Authority. Overpayments can also occur when property has been erroneously included within the Zone and a correction is made. The City makes adjustments in the amount of Contract Tax Increments owed for the prior four years before transferring the current year's Contract Tax Increments to the Authority. See "INVESTMENT CONSIDERATIONS—Recalculation of Prior Years' Tax Increments."
- (g) For an explanation of how Developer Related Tax Increments are calculated, see "FINANCIAL INFORMATION—Additional Obligations of the Authority."
- (h) Outstanding debt consists of the Bonds.
- (i) See "INVESTMENT CONSIDERATIONS—A Decrease in Taxable Value Produces a Greater Decrease in Captured Appraised Value and Can Reduce Tax Increments Significantly."
- (j) The Debt Service Reserve Fund Requirement is described under "SOURCE OF AND SECURITY FOR THE BONDS—Debt Service Reserve Fund."

## OFFICIAL STATEMENT

**\$40,000,000**

### **MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**

*(a public nonprofit local government corporation acting on behalf of the City of Houston, Texas)*

### **TAX INCREMENT CONTRACT REVENUE BONDS, SERIES 2021**

This Official Statement provides certain information in connection with the issuance by Memorial-Heights Redevelopment Authority (the “*Authority*”) of its \$40,000,000 Tax Increment Contract Revenue Bonds, Series 2021 (the “*Bonds*”). The Bonds are issued pursuant to Chapter 431, Texas Transportation Code, as amended, the general laws of the State of Texas, a bond order (the “*Bond Order*”) adopted by the Board of Directors of the Authority (the “*Board*”) on March 4, 2021, a Pricing Certificate authorized by such Bond Order, and the Indenture of Trust dated as of March 4, 2021 (the “*Indenture*”) between the Authority and Regions Bank, an Alabama banking corporation, as trustee (the “*Trustee*”).

This Official Statement speaks only as of its date and includes descriptions, among others, of the Bonds, the Bond Order, the Indenture, the Tri-Party Agreement (as defined herein), the Authority, Reinvestment Zone Number Five, City of Houston, Texas (the “*Zone*”), the Seventh Amended Project Plan and Reinvestment Zone Financing Plan dated November 15, 2018 (the “*Project and Financing Plan*”), and existing development within the boundaries of the Zone. The Zone currently consists of approximately 1,410 acres located north and/or west of the central business district of the City of Houston, Texas (the “*City*”) generally along Buffalo or White Oak Bayous or within the neighborhood known as The Heights. The Zone stretches to Interstate 610 to the north and west, Interstate 45 to the east, and Clay Street to the south. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents referenced herein may be obtained from the Authority, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.

## **SOURCE OF AND SECURITY FOR PAYMENT**

### **General**

The Bonds are limited obligations of the Authority payable solely from the sources described herein and are not obligations of the City, the State of Texas, or any entity other than the Authority. The Authority is not obligated to pay principal of and interest on the Bonds from monies of the Authority other than the Pledged Revenues as defined herein under “—Pledge of Revenues.”

### **General Statutory Requirements for Tax Increment Zones**

A tax increment reinvestment zone under Chapter 311 of the Texas Tax Code, as amended (the “*TIF Act*”) may be created by a city or a county, which also approves a project plan and a financing plan for the zone. In the case of a city, the ordinance creating the zone and the project plan and financing plan may provide that the city will deposit its Tax Increments (as defined below) into a tax increment fund established by the city for the zone. Other taxing units which tax property in the zone may agree with the city that they will also deposit a portion of their Tax Increments (as defined below) into the tax increment fund established for the zone.

The amount of a taxing unit’s tax increment for a year (the “*Tax Increment*”) is the amount of property taxes levied and assessed by the taxing unit for that year on the Captured Appraised Value (as defined below) within the zone. The captured appraised value of real property taxable by a taxing unit for a year (the “*Captured Appraised Value*”) is the total taxable value of all real property taxable by the taxing unit and located in the tax increment reinvestment zone for that year less the total taxable value of all real property taxable by the unit and located in the reinvestment zone in the year in which the zone was designated as such under the TIF Act and, with respect to any land subsequently added to the zone, the year in which such land was annexed into the zone (the “*Tax Increment Base*”). If the boundaries of a zone are reduced, the Tax Increment Base is reduced by the taxable value of the real property removed from the zone for the year in which the property was originally included in the zone’s boundaries.

The TIF Act provides that each taxing unit is required to pay into the tax increment fund for the zone the collected Tax Increments that it has agreed to pay under its agreement with the city or county that created the zone and in accordance with the project plan. The TIF Act provides that the payment is to be made by the 90th day after the later of either the delinquency date for the taxing unit's property taxes, or the date the entity that created the zone submits to the taxing unit an invoice, unless otherwise provided for in the taxing unit's agreement with the city or county that created the zone.

The TIF Act provides that a reinvestment zone terminates on the earlier of: (1) the termination date designated in the ordinance designating the zone or an earlier or later date designated by a subsequent ordinance and (2) the date on which all project costs, tax increment bonds and interest on those bonds, and other obligations have been paid in full. In addition, the TIF Act provides that a reinvestment zone may be terminated if the city that created the zone defeases all of the zone's tax increment bonds. See "THE BONDS—Defeasance."

### **Establishment of the Zone; Participants**

Pursuant to City Ordinance No. 1996-1337, approved on December 18, 1996 (the "*City Creation Ordinance*"), the City created the Zone and established the tax increment fund for the Zone as a separate fund in the City treasury (the "*Tax Increment Fund*"). The City Creation Ordinance provided that the Zone would take effect on January 1, 1997 and would terminate on December 31, 2016, or at an earlier time designated by subsequent ordinance of the City, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, and the interest on the bonds have been paid in full. By City Ordinance No. 2010-996, approved on December 8, 2010, the City extended the termination date of the Zone from December 31, 2016 to December 31, 2029. By City Ordinance No. 2018-1022, approved on December 19, 2018, the City extended the termination date of the Zone from December 31, 2029 to December 31, 2048.

As originally created, the Zone contained approximately 88 acres (the "*Original Zone*"). Several annexations followed: approximately 774 acres in 2007 (the "*2007 Annexed Area*"), approximately 38 acres in 2008 (the "*2008 Annexed Area*"), 0.10 acre in 2009 (the "*2009 Annexed Area*"), and approximately 763 acres in 2015 (the "*2015 Annexed Area*" and collectively, the "*Annexed Areas*"). In 2011, the City removed approximately 253 acres from the Zone.

Under the Project and Financing Plan for the Zone, the City contributes 100% of its collected Tax Increments arising from the Zone to the Tax Increment Fund during the term of the Zone. The City is currently the only taxing unit which contributes Tax Increments to the Zone.

Harris County, Texas (the "*County*") and Houston Independent School District ("*HISD*") also contributed their tax collections to the Tax Increment Fund; however, their obligation to do so concluded on December 31, 2016 and December 31, 2017, respectively, and they no longer participate in the Zone.

### **Tri-Party Agreement**

The First Amended and Restated Agreement among the City, the Zone and the Authority, approved by the City Council on May 23, 2001 pursuant to Ordinance No. 2001-455 (the "*Tri-Party Agreement*"), governs the contractual relationship among the parties.

The Tri-Party Agreement states in detail the scope of services to be provided to the Zone by the Authority. The services include management and administrative services for the Zone, as requested by the board of directors of the Zone (the "*Zone Board*"), services with respect to the Project and Financing Plan, including enlargement of the Zone and amendments to the Project and Financing Plan, and services with respect to the tax rolls pertaining to the Zone, including analysis and coordination with taxing units. The Authority is also required to assist the Zone Board in establishing a program to increase the level of safety within the Zone, prepare development plans, construct infrastructure and acquire property.

The Tri-Party Agreement provides that the Authority has the authority to issue its bonds and notes, to enter into obligations with developers or builders, and to enter into contracts with consultants, to be repaid from Contract Tax Increments; provided that the Authority may issue its bonds only upon the approval of the City Council. All development agreements with developers or builders must be approved by the Director of Planning and

Development of the City (now the Chief Development Officer). They will provide that the Authority will not reimburse any developer or builder for any costs that are determined to be ineligible for financing under the TIF Act, and the developer or builder will repay the Authority for any payment made by the Authority to the developer or builder that is determined to be ineligible. All consultant contracts are subject to approval of the Chief Development Officer, who is required to approve such contracts if they conform to the terms and conditions of City contracts of substantially the same or similar scope for similar services. Consultant contractors will provide that the Authority will not pay the consultant for services that are determined to be an ineligible Project Cost under the TIF Act and the consultant will repay the Authority for any payment to the consultant that is determined to be an ineligible Project Cost.

The Tri-Party Agreement states that no obligation of the Authority will be issued or incurred by the Authority that cannot be paid from funds budgeted for expenditures in the Authority's current budget unless the obligation is approved by the Zone Board and the Chief Development Officer. The Tri-Party Agreement approves issuance by the Authority of notes in an amount not to exceed \$1,000,000. The Zone Board and the Chief Development Officer must consent to the assignment and pledge of the Authority's Revenue Fund and approve the terms and conditions of the instruments assigning or pledging the proceeds to be received by the Authority. The Authority must obtain the prior approval of the City Director of Public Works for any project constructed or caused to be constructed by or on behalf of the Authority.

During the term of the Tri-Party Agreement, the Authority will prepare and submit its annual budget to the City and the Zone Board on or about January 1 of each year. Budget amendments that involve an increase, decrease or adjustment of \$400,000 or more must be approved by the Zone Board and the City Council. In the event that the Zone Board or the City Council fails or refuses to approve the proposed budget for the ensuing year, the Authority may continue to operate on the budget for the previous fiscal year for a period not to exceed twelve months. If, at the end of that period no budget has been approved, either the City or the Authority may terminate the Tri-Party Agreement, subject to payment of the Authority's bonds, notes and other obligations. The Authority's Fiscal Year 2021 budget has been approved by the Zone Board and the City Council.

The Authority is required to maintain books of records and accounts, obtain an audit at the end of each fiscal year by an independent certified public accountant, and obtain an audit of construction activities at the end of each fiscal year prepared by an independent consultant approved by the Chief Development Officer. The Authority will submit a quarterly accounting of its expenditures and revenues to the Chief Development Officer of the City. The City's review of such accounting is limited to determining whether the expenditures are authorized by the budget and consistent with the terms of the contract pursuant to which they were incurred, and not a review to determine whether the Board properly exercised its discretion in making the expenditure.

Pursuant to the Tri-Party Agreement, the City and the Zone agree to continuously collect the Tax Increments during the term of the Tri-Party Agreement, and to the extent legally permitted to do so, they agree that they will not permit a reduction in the Tax Increments paid by the City, except to the extent provided in the Tri-Party Agreement.

Pursuant to the Tri-Party Agreement, the City, on behalf of itself and the Zone, agrees to pay to the Authority not later than the first business day of July in which a current, approved budget is in effect for the Authority, all monies then available in the Tax Increment Fund subject to the retention by the City of a reserve of up to five percent of the monies then available in the Tax Increment Fund, but not more than the amount of the approved budget. The City has the right to offset from these payments any amount paid by the Authority to a developer, builder, consultant or vendor pursuant to a contract that is not authorized by and consistent with the Tri-Party Agreement or the terms of the contract pursuant to which it was incurred. Nonetheless, this offset does not affect the obligation of the City and the Zone to pay from Tax Increments an amount that will permit the Authority to pay its bonds and other obligations issued or incurred pursuant to and consistent with the Tri-Party Agreement.

If a budget has not been approved by the thirtieth day before the date of a principal or interest payment on the Authority's bonds, and upon request by the Authority, the City will pay to the Authority the amount of available monies in the Tax Increment Fund otherwise payable to the Authority under the Tri-Party Agreement in at least the amount necessary for the payment of principal and interest due to the holders of the bonds next due, and the obligation to make the payment survives a termination of the Tri-Party Agreement.

The City and the Zone agree that their obligation to make the payments of Contract Tax Increments as set forth in the Tri-Party Agreement from the Tax Increment Fund is absolute and unconditional, and until such time as the bonds or notes, and the contractual obligations of the Authority have been fully paid or legally defeased or the date of expiration of the Zone, whichever comes first, the City and the Zone will not suspend or discontinue any payments of Contract Tax Increments as provided in the Tri-Party Agreement and will not terminate the Tri-Party Agreement for any cause.

If the City or Authority fails to perform its obligations under the Tri-Party Agreement, the non-defaulting party may terminate the Tri-Party Agreement. No termination of the Tri-Party Agreement will affect the obligation of the City and the Zone to pay from Tax Increments an amount of Contract Tax Increments which will permit the Authority to pay its bonds, notes or obligations issued or incurred pursuant to the Tri-Party Agreement prior to termination. In the Tri-Party Agreement, the City agrees not to dissolve the Authority or the Zone unless it makes satisfactory arrangements to provide for the payment of the Authority's bonds, notes or other obligations incurred prior to the Authority's dissolution.

In performing its obligations under the Tri-Party Agreement, the Authority is an independent contractor. The Authority is required to indemnify the City, the Zone, and their officers and employees for all claims for injury, death, damage or loss injuries sustained in connection with or incidental to any performance under the Tri-Party Agreement. The obligations of the Authority to indemnify the City and the Zone are subordinate to the Authority's obligation to pay principal and interest on its bonds and notes.

### **Calculation of Tax Increments**

The Harris County Appraisal District (the "*Appraisal District*") appraises the property in the Zone for the City. The certified appraised value in the Zone is supplied to the City by the Appraisal District based on the Appraisal District's identification of all real property accounts within the Zone's boundaries. The certified appraised taxable value in the Zone takes into account state property tax exemptions and the property tax exemptions granted by the City. The City uses the appraisal information to determine the Captured Appraised Value in the Zone by subtracting the Tax Increment Base from the current year's taxable value.

The Appraisal District may issue a "correction roll" which may affect previously certified values. Value changes can be positive or negative depending on the cause. Omitted property adds value while protest settlements, exemptions and error corrections can add or subtract value. Value changes typically are larger in dollar amount and number in the years just following the current tax year and tend to diminish in amount and number over time. These changes affect the Captured Appraised Value for a tax year.

The City's determination of Captured Appraised Value for tax years 2015 through 2020 is shown under "FINANCIAL INFORMATION—Schedule 5: Tax Increment Collections."

Calculation of Tax Increments is subject to administrative interpretation by the City, which may change from time to time, at its option. See "INVESTMENT CONSIDERATIONS—Recalculation of Prior Years' Tax Increments."

### **Collection of Tax Increments**

Each taxing unit participating in a tax increment reinvestment zone is to pay into the Tax Increment Fund Tax Increments equal to the amount arrived at by multiplying the Captured Appraised Value in the zone by the taxing unit's contributed tax rate per \$100 of valuation for the tax year and then multiplying that product by the taxing unit's collection percentage, subject to any aggregate limitation. The collection percentage is determined by comparing the taxes collected from all taxable real property in the zone to the total taxes due to the taxing unit for the tax year from all real property in the zone. The City's collection percentage is shown in "FINANCIAL INFORMATION—Schedule 5: Tax Increment Collections."

The TIF Act provides that payment of Tax Increments by a participating taxing unit is to be made by the 90<sup>th</sup> day after the later of either the delinquency date for the taxing unit's property taxes, or the date the city or county that created the zone submits to the taxing unit an invoice specifying the tax increment produced by the taxing unit and the amount the taxing unit is required to pay into the tax increment fund for the zone, unless otherwise specified by agreement.



Pursuant to the Tri-Party Agreement, the City and the Zone agree to continuously collect the Tax Increments during the term of the Tri-Party Agreement, and to the extent legally permitted to do so, they agree that they will not permit a reduction in the Tax Increments paid by the City, except to the extent provided in the Tri-Party Agreement.

The obligations of the City and the Zone to pay Contract Tax Increments to the Authority are subject to the Tri-Party Agreement and the rights of any of the holders of bonds, notes or other obligations that have been or are hereafter issued by the City or any other taxing unit that may hereafter participate in the Zone that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the City or other taxing unit, as applicable. See “INVESTMENT CONSIDERATIONS—Risk of Higher Priority Debt.”

### **Contract Tax Increments Defined**

The TIF Act requires that all Tax Increments arising from taxation in the Zone be deposited to the Tax Increment Fund for the Zone in the City’s treasury. Pursuant to the Tri-Party Agreement, not later than the first business day of July in which a current, approved budget is in effect for the Authority, the City will pay to the Authority all monies then available in the Tax Increment Fund not subject to retention by the City, as described below.

The City nets from the Tax Increments derived from City taxes any expenses incurred by the City in connection with the collection of the Tax Increments and retains a reserve of up to five percent of the moneys then available in the Tax Increment Fund (the Tax Increments net of such deductions and reserves referred to herein as the “*Contract Tax Increments*”) Contract Tax Increments are defined in the Indenture as Tax Increments payable to the Authority net of cost of collection and the reserve retained by the City.

### **Developer Related Tax Increments**

The Authority has agreed to reimburse two developers in the Zone for Public Improvements financed with funds advanced by the developers from a portion of the Tax Increments generated from their projects, as further described in the agreements. The Contract Tax Increments needed to make these reimbursements (the “*Developer Related Tax Increments*”) are paid to the developers annually if and when they meet the requirements set forth in their agreements with the Authority and the Zone. See “FINANCIAL INFORMATION—Additional Obligations of the Authority.”

### **Pledged Revenues**

Pursuant to the Bond Order and the Indenture, the Authority has agreed to transfer all the Contract Tax Increments remaining after subtracting the Developer Related Tax Increments (the “*Pledged Tax Increments*”) to the Trustee. The Trustee will deposit such amounts into an Indenture fund which constitutes the Authority’s “Revenue Fund.” Once debt service on the Contract Revenue Bonds for the succeeding twelve-month period has been deposited, the Debt Service Reserve Fund has been fully funded, and the Trustee’s and Paying Agent/Registrar’s fees have been paid, the Trustee will transfer any surplus Pledged Tax Increments in a Surplus Fund to be used for other lawful purposes under the TIF Act. See “THE TRUST INDENTURE – The Funds.”

The Authority has pledged to the payment of principal of and interest on the Contract Revenue Bonds the “Pledged Revenues,” which are defined in the Indenture and the Bond Order as all of the Authority’s right, title and interest in and to the following described properties and interests, direct or indirect, whether now owned or hereafter acquired:

- (a) the Pledged Tax Increments;
- (b) all of the Authority’s right, title and interest in the Tri-Party Agreement that pertains to the Contract Tax Increments;
- (c) all monies deposited or required to be deposited in the Pledged Revenue Fund, the Debt Service Fund (as hereinafter defined), and the Debt Service Reserve Fund (as hereinafter defined) held by the Trustee pursuant to the provisions of the Indenture and all interest earnings and investment income therefrom; and

- (d) any and all property of every kind and nature (including without limitation, cash, obligations or securities) which may from time to time hereafter be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted, or delivered to or deposited with, the Trustee as additional security under the Indenture by the Authority, or anyone on behalf of the Authority, or which pursuant to any of the provisions may come into the possession or control of the Trustee as security thereunder, or of a receiver lawfully appointed thereunder, all of which property the Trustee is authorized to receive, hold and apply according to the terms thereof.

As required by the Tri-Party Agreement, the Chief Development Officer of the City and the Zone Board will approve, consent and acknowledge the assignment and pledge of the Pledged Revenues and the terms of the Bond Order and the Indenture.

### **Debt Service Reserve Fund for the Contract Revenue Bonds**

The Indenture creates a Debt Service Reserve Fund for the equal and ratable benefit of the Contract Revenue Bonds. The Debt Service Reserve Fund is required to be funded in the amount of the “Reserve Requirement,” which is equal to the Maximum Annual Debt Service on the Contract Revenue Bonds, provided that the Reserve Requirement shall not exceed 10% of the stated principal amount of the Contract Revenue Bonds or any series of Contract Revenue Bonds or 10% of the issue price of the Contract Revenue Bonds or any Series of Contract Revenue Bonds if such bonds are issued with more than a de minimus amount of original issue discount. See “THE INDENTURE OF TRUST—The Funds.” The Reserve Requirement after issuance of the Bonds is \$2,123,725.

In lieu of a cash deposit to the Debt Service Reserve Fund to fund the Reserve Requirement, the Indenture permits the Authority to use a Reserve Fund Surety Policy (as defined below). A “Reserve Fund Surety Policy” is defined as an insurance policy or other credit agreement as such term is defined by Section 1371.001, Texas Government Code, in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating (at the time of purchase thereof) for its long term unsecured debt or claims paying ability of at least “A” or its equivalent (without regard to any modifier) by a nationally recognized statistical rating organization.

Concurrently with the issuance of the Bonds, the Authority will use Bond proceeds to purchase a Reserve Fund Surety Policy from the Insurer in the amount of the Reserve Requirement.

The premium for any Reserve Fund Surety Policy may be paid from bond proceeds or other funds of the Authority lawfully available for such purpose. All amounts deposited in or required to be deposited in the Debt Service Reserve Fund may be used to pay obligations incurred to providers of Reserve Fund Surety Policies, including amounts advanced thereunder, interest on such advances and related costs and expenses.

The Reserve Fund Surety Policy will be drawn upon to pay principal of or interest on the Bonds when insufficient funds are available for such purpose in the Debt Service Fund (as defined herein). In such event, the Debt Service Reserve Fund is to be replenished as described in “THE INDENTURE OF TRUST—The Funds.” All amounts deposited in or required to be deposited in the Debt Service Reserve Fund after a drawing on the Reserve Fund Surety Policy may be used to pay obligations incurred to the provider of the Reserve Fund Surety Policy, including amounts advanced thereunder, interest on such advances and related costs and expenses and may not be available to pay principal of or interest on the Bonds. See “Investment Considerations—Reliance on Debt Service Reserve Fund and Use of Reserve Fund Surety Policy.”

If Additional Parity Bonds are issued, any increase in the Reserve Requirement may be funded with cash (which may be invested in eligible investments under the Authority’s investment policy) or by another Reserve Fund Surety Policy. In the event the Authority elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any Bond proceeds thereby released, to the greatest extent permitted by law, to any purposes for which the Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used.

## **Additional Parity Bonds**

The Authority has reserved the right to issue additional parity Contract Revenue Bonds (the “*Additional Parity Bonds*”) on the terms set out in the Indenture and the Bond Order. Prior to issuing Additional Parity Bonds, the following conditions must be met:

- (a) the Additional Parity Bonds shall mature on, and interest is payable on, the principal installment payment dates and interest payment dates, respectively;
- (b) the City has approved issuance of the Additional Parity Bonds on the terms set forth in the Tri-Party Agreement, as the same may be modified from time to time;
- (c) there shall be on deposit in the Debt Service Reserve Fund, an amount equal to the Reserve Requirement after the issuance of the Additional Parity Bonds;
- (d) the Authority certifies that it is not in material default with the terms of the Indenture, any Bond Order or the Tri-Party Agreement; and
- (e) the Authority has received a certificate of the Authority’s financial advisor which shows Captured Appraised Value which, at the City’s tax rate then in existence, will generate Contract Tax Increments that will be at least 130 percent of projected Maximum Annual Debt Service, taking into account the Contract Revenue Bonds then outstanding and the Additional Parity Bonds to be issued; provided that this requirement shall not apply to the issuance of any series of Additional Parity Bonds for refunding purposes that will have the result of reducing the Average Annual Debt Service requirements on Contract Revenue Bonds.

The certificate required by paragraph (e) shall be based on a projection of the Captured Appraised Value by the Authority’s financial advisor using either (i) a certificate of the Harris County Appraisal District showing certified values, adjusted for exemptions, or (ii) estimated or preliminary values provided by the Harris County Appraisal District, adjusted for exemptions and losses due to protests based on historical data based on a three-year average of such reductions.

In the Indenture, the Authority represents that the Pledged Revenues are not in any manner pledged to the payment of any debt or obligation of the Authority other than the Contract Revenue Bonds, and the Authority covenants that it will not in any manner pledge or further encumber the Pledged Revenues unless such pledge or encumbrance is junior and subordinate to the lien and pledge granted under the Indenture to secure the Contract Revenue Bonds. The Indenture requires that subordinate lien obligations provide that they are payable from Pledged Revenues only if and to the extent of moneys that could otherwise be deposited to the Debt Service Reserve Fund (for Reserve Fund Surety Policy obligations) or to the Surplus Fund. See “THE INDENTURE OF TRUST—The Funds.”

## **PLAN OF FINANCING**

Proceeds of the Bonds will be used for the purpose of (1) financing Project Costs in accordance with the Project and Financing Plan; (2) satisfying the Reserve Requirement for the Debt Service Reserve Fund; and (3) paying costs of issuance, all under and pursuant to the authority of the TIF Act and all other applicable law.

Major projects included in the Project and Financing Plan and the Authority’s current five-year capital improvement plan include Houston Avenue and White Oak Drive intersection improvements, Little Thicket park improvements, Shepherd, Durham and selected cross street reconstruction project, North Canal project, Heights Boulevard pedestrian and bicycle safety improvements, west Dallas restriping project, Yale and Center intersection, segment of trail between White Oak Bayou and Memorial Park, and safe sidewalk program. See “MEMORIAL HEIGHTS REDEVELOPMENT PLAN—Projects.”

The Authority currently plans to issue Additional Parity Bonds in 2023 to implement its Capital Improvement Plan, but has no current plans to issue Additional Parity Bonds in the next 12 months.

**USE AND DISTRIBUTION OF BOND PROCEEDS**

The following table sets forth the expected use and distribution of Bond proceeds and is subject to change.

**Sources of Funds:**

Principal .....	\$ 40,000,000.00
Net Original Issue Premium .....	<u>2,872,124.50</u>
<b>Total Sources:</b> .....	<b><u>\$ 42,872,124.50</u></b>

**Uses of Funds:**

Deposit to Project Fund <sup>(1)</sup> .....	\$ 41,778,155.81
Cost of Issuance, including bond insurance premium <sup>(2)</sup> .....	<u>1,093,968.69</u>
<b>Total Uses:</b> .....	<b><u>\$ 42,872,124.50</u></b>

<sup>(1)</sup> Certain of the project costs being financed with proceeds of the Bonds have been constructed using the Authority’s general fund monies, and the Authority will reimburse the general fund from Bond proceeds for those expenditures.

<sup>(2)</sup> Represents estimated fees, expenses, underwriting discount, insurance premium, and surety policy premium related to the issuance and sale of the Bonds.

**INVESTMENT CONSIDERATIONS**

For a variety of reasons, including those described below, a decrease or reduction in Tax Increments causing a decrease or reduction in Pledged Revenues may occur. The Bonds are subject to special investment considerations as set forth below.

**Limited Obligations**

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE PLEDGED REVENUES. THE BONDS ARE NOT OBLIGATIONS OF THE CITY AND DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY. THE CITY IS NOT OBLIGATED TO MAKE ANY PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE BONDS. FURTHERMORE, THE BONDS ARE NOT OBLIGATIONS OF THE STATE OF TEXAS OR ANY ENTITY OTHER THAN THE AUTHORITY. THE AUTHORITY DOES NOT HAVE THE POWER TO LEVY TAXES OR ASSESS FEES TO PAY THE BONDS.

**Impact of COVID-19 or Other Infectious Disease Outbreak**

Any international, national or localized outbreak (an “*Outbreak*”) of a highly contagious or epidemic disease, such as COVID-19, the Zika virus, Ebola virus, or other highly contagious or epidemic disease, may have a material impact on an investment in the Bonds. The Authority’s financial and operating condition may be materially adversely impacted by an Outbreak, particularly if such Outbreak occurred in or around the Zone. Financial markets in the United States and globally may experience significant volatility or declines in connection with an Outbreak, which may have a material impact on the market price of the Bonds. Moreover, the spread of an Outbreak, such as COVID-19, may materially impact the national, state and local economies and, accordingly, materially adversely impact the Authority and the rating on the Authority’s bonds. See “MUNICIPAL BOND RATINGS.”

The World Health Organization declared a pandemic following the Outbreak of COVID-19, a respiratory disease caused by a particular strain of coronavirus (the “*COVID-19 Pandemic*”), which is currently affecting many parts of the world, including the United States, Texas and the Harris County region, and is impacting commerce and global and national financial markets. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the “*President*”) declared the COVID-19 Pandemic a national emergency and the Texas Governor (the “*Governor*”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). On March 15, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas, which declaration has been continued on a monthly basis.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster and issuing executive orders that have the force and effect of law. The Governor issued a series of executive orders relating to COVID-19 preparedness and mitigation and phased reopening of businesses in Texas. These include executive orders which, among other things, impose operations and limitations on business occupancy and social gatherings and require people to wear face masks (with some exceptions). The Governor retains the authority to impose additional restrictions on activities. 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. In addition to the actions by the state and federal officials, certain local officials have declared a local state of disaster. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which negatively affects the operation of businesses and the national, state and local economies.

According to recent media reports, a study of smartphone data showed that Harris County lost population to surrounding counties in 2020 as people had less need to go to downtown offices and wanted more outdoor space. The desire for less dense living environments, the closure of many leisure activities in central Houston due to the Pandemic, the oil slump and an oversupply of units have adversely affected the Houston multifamily real estate market. “See “Risks Related to Multifamily Housing” below.

Approximately 35 percent of the Zone’s tax base consists of multifamily housing developments and the Authority is aware of six such projects recently completed or under construction. Occupancy rates and rental rates may be taken into account in establishing the taxable value of income producing properties, such as multifamily housing developments, so lower occupancy and rental rates may result in lower taxable values for such establishments. See “TAXING PROCEDURES OF THE CITY—Valuation of Property for Taxation.”

The Zone also contains retail establishments and restaurants. As a result of the COVID-19 Pandemic, the resulting decreased economic activity, and the likelihood of permanent changes in consumer attitudes and activities following the COVID-19 Pandemic, some of these businesses may be forced to close. Occupancy and rental rates may be taken into account in establishing the taxable value of income producing properties, such as retail establishments and restaurants, so lower occupancy and rental rates may result in lower taxable values for such establishments. See “TAXING PROCEDURES OF THE CITY—Valuation of Property for Taxation.”

The primary security for the Bonds, the Pledged Tax Increments, is derived from ad valorem taxes assessed and collected annually. It is unclear at this time what if any effect the COVID-19 Pandemic and resulting economic disruption may have on future assessed values or the collection of taxes.

**The taxable values and collections data contained herein are the latest available but are as of the dates and for the periods described herein, primarily prior to the COVID-19 Pandemic and measures instituted to slow it. In particular, 2020 taxable values were measured as of January 1, 2020, prior to recognition of the severity of the COVID-19 Pandemic. Accordingly, they are not necessarily indicative of future results.** The Authority cannot predict the effect of the COVID-19 Pandemic on 2021 taxable values of the existing properties in the Zone but it is aware of ongoing construction in the Zone, which will produce taxable value which will come onto the tax rolls in 2021.

### **Impact of Condition of Energy Industry**

Many energy companies are centered in Houston and have manufacturing facilities and offices in the City. Energy is a major driver of the Houston economy. Due to the decline in energy consumption during the COVID-19 pandemic and surplus supply, the price of oil decreased in 2020. As a result, energy companies have reduced capital budgets and closed production. Job losses and industry consolidation have occurred and are expected to continue. According to the Dallas Federal Reserve, nearly 27 percent of the jobs in the oil and gas sector were eliminated during the Pandemic. Because of the importance of the energy industry to the Houston economy, these job losses and industry consolidation are expected to have an adverse effect on the area economy and segments of Houston’s real estate market. In the longer term, the energy industry in Houston may be adversely affected by governmental actions taken to reduce the use of fossil fuel and concerns about global warming.

The dual impact of the COVID-19 Pandemic on the economy and the job losses in the energy sector could have a lasting impact on the Houston economy.

## **Weather Events**

The Houston area, including the Zone, is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms and other tropical disturbances. It may also be affected by severe winter storms.

The City participates in the National Flood Insurance Program administered by the Federal Emergency Management Agency (“*FEMA*”). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities. FEMA periodically updates and revises its maps designating the areas of the City that are subject to special flood hazards. Properties that are currently located outside of a designated flood-prone area may suffer a reduction in value if they are placed within the boundaries of a special flood hazard area the next time FEMA updates and revises its flood maps.

Not all flood hazards are mapped on the FEMA flood maps, nor is every bayou or creek studied. Flooding can occur from ponding or overland sheet flow when intense rainfall overwhelms the local street drainage system. The mapped floodplain is only an estimate of where flooding is predicted to occur from a bayou or creek, given a set of parameters including a hypothetical rainfall occurring over a watershed for an assumed amount of time. During an actual rain event, natural conditions can result in greater amounts of rainfall or runoff, resulting in flood levels deeper and wider than shown on the FEMA maps.

The greater Houston area, including the Zone, has experienced several 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, brought historic levels of rainfall during the successive four days. Hurricane Harvey caused flooding in the area in which the Zone is located; however, the Authority has no information concerning what, if any, structural damage occurred within the Zone. Under the Authority’s Capital Improvement Plan, it will participate with FEMA, Harris County Flood Control District, Texas Department of Transportation, the Army Corps of Engineers and the City on an estimated \$133,000,000 project which will increase water conveyance capacity in portions of the City, including the Zone. Additionally, the Authority’s Capital Improvement Plan includes projects which will increase capacity in stormwater lines within certain roadways in the Zone. See “MEMORIAL HEIGHTS REDEVELOPMENT PLAN—Projects.”

On February 11-19, 2021, the State of Texas experienced a severe winter storm which led to power outages in much of the State, including the Houston area. The power outages caused water pipes to burst and damage to many structures. The President has declared a major disaster in Texas, making disaster assistance from the Federal Emergency Management Agency (“*FEMA*”) available to homeowners and businesses which sustained damage. The Authority has no information concerning the extent of structural damage, if any, within the Zone at this time. There are special taxing procedures for areas declared to be a disaster area which could affect the amount of taxes due and when they are collected. See “TAXING PROCEDURES OF THE CITY—Reappraisal of Property after Disaster” and “—Tax Payment Installments after Disaster.”

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

The frequency and intensity of weather events in the Houston area could have a material impact on the long-term development of the area’s economy.

## **Risks Related to Multifamily Housing**

Multifamily housing properties, which make up approximately 35 percent of the Zone's tax base, can be significantly affected by a variety of risk factors. The following are examples of such risks: changes in international, national, regional and local economic conditions; local real estate conditions, such as an oversupply of, or reduction in demand for, housing units, decreases in rental rates, declining real estate values and the availability and creditworthiness of tenants; levels of consumer spending and changes in consumer confidence; increased operating costs; changes in applicable laws and regulations, including tax, environmental, safety and zoning; perceptions by consumers of the safety, convenience and attractiveness of the properties; casualties and other natural disasters; and the potential for terrorist activities.

Occupancy rates and rental rates for multifamily properties are affected by the demand for housing. The five largest taxpayers in the Zone report current occupancy rates of 92 to 95% with the exception of BKR Memorial II LLC, which reported an occupancy rate of 82%. According to research from the Houston Greater Partnership, close to 40,000 apartment units are expected to be added to the Houston market in the next two years, which is likely to result in an oversupply of multifamily housing units and greater competition for tenants. The Authority is aware of six multifamily housing projects in the Zone either under construction or recently completed. Occupancy rates and rental rates may be taken into account in establishing the taxable value of income producing properties, such as multifamily housing developments, so lower occupancy and rental rates may result in lower taxable values for such establishments. See "TAXING PROCEDURES OF THE CITY—Valuation of Property for Taxation."

## **Future Taxable Values in the Zone May Decline**

Each year the Appraisal District determines the then current market value of all real property and improvements in the Zone, which it uses to determine the taxable value in the Zone. The market value of the commercial and residential development within the Zone is affected by the demand for such commercial establishments and housing. Demand is affected by many factors, such as interest rates, credit availability, construction costs, energy availability, mobility and the general economic conditions and demographic characteristics of the U.S. and the specific economic conditions and demographic characteristics of the Houston metropolitan area.

The difference between the base value of the Zone and the current taxable value of the Zone determines Captured Appraised Value. **Captured Appraised Value is derived from the taxable value of real property and improvements within the Zone, not from any increase in the appraised value of personal property (such as equipment and inventory).**

The Appraisal District may use cost data, cost comparisons and/or an analysis of the income being produced by an apartment project, office building or retail establishment to determine its taxable value. Residential or commercial buildings that are not occupied or are only partially occupied may be appraised at a lower value than occupied facilities. Under certain circumstances, residential real property inventory held by a person in the trade or business will be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Reduced taxable values of the improvements in the Zone will affect Captured Appraised Value used to determine the Contract Tax Increments received by the Authority.

The appraisal method or combination of methods that the Appraisal District uses within the Zone is within the discretion of the Chief Appraiser of the Appraisal District and may change from time to time. The use of a particular method or combination of methods of appraisal with respect to property in the Zone may, over time, cause a decrease in the Captured Appraised Value in the Zone and, therefore, result in a reduction in the Contract Tax Increments.

Property owners have the right to protest the appraised value of their property in the Zone annually and are not required to render their property for ad valorem taxation at any agreed upon level, unless required by a development agreement with the Authority. Owners in the Zone may sell their properties to entities which do not pay ad valorem taxes on their property or convert their property to a use which is exempt from ad valorem taxes. Property owners have the right to seek tax abatements. Property values may also be adversely affected by natural or other disasters resulting in the destruction of property in the Zone. See "—Weather Events" in this section. The appraised value of the property and improvements will be determined and certified by the Appraisal District in accordance with the procedures described above and in "TAXING PROCEDURES OF THE CITY" and may be at a value lower than projected.

## Recalculation of Prior Years' Tax Increments

Overpayments of Contract Tax Increments from prior years may be offset against the current year's Contract Tax Increments and may result in a significant reduction. The City makes adjustments in the amount of Contract Tax Increments owed for the prior four years before transferring the current year's Contract Tax Increments to the Authority.

Overpayments occur when taxpayers are successful in reducing the value of their properties and consequently their taxes in administrative or judicial proceedings which were pending when the Contract Tax Increments were paid to the Authority but have subsequently been decided. Overpayments can also occur when property has been erroneously included within the Zone and a correction is made. When the City calculated the Contract Tax Increments owed to the Authority on July 1, 2019, it reduced the amount to be paid to the Authority (prior to deduction of the City administrative fee) from \$6,605,739 to \$4,729,394, for a reduction of \$1,876,344. This reduction was due to a proration of the taxable value of properties partially within the Zone between the portion located in the Zone and the portion located outside of the Zone for tax years 2014 through 2018. Previously all of the "split properties" had erroneously been included within the Zone.

The Authority cannot recapture Contract Tax Increment overpayments—Contract Tax Increments not used for debt service in a particular year flow to the Surplus Fund and are available for other purposes.

## A Decrease in Taxable Value Produces a Greater Decrease in Captured Appraised Value and Can Reduce Tax Increments Significantly

A percentage decrease in taxable values results in a larger percentage decrease in the Captured Appraised Value (which subtracts the base year value). For instance, if a zone had a taxable value of \$100 and a Captured Appraised Value of \$75, then a reduction in taxable value to \$95 would be a 5% decrease in taxable values and a 6.6% decrease in Captured Appraised Value. See the "Ratio of 2020 Captured Appraised Value to Total Appraised Value in Zone" in "OFFICIAL STATEMENT SUMMARY--Schedule 1: Selected Financial Information (unaudited)." Tax Increments are derived from Captured Appraised Value and so will show the same percentage reduction as the Captured Appraised Value (6.6% in the example).

## Tax and Collection Rates May Decline

The amount of Contract Tax Increments available to pay principal of and interest on the Bonds is determined by the taxable value of the real property and improvements in the Zone, the tax rate of the City, and the percentage of taxes actually collected from taxpayers in the Zone and paid into the Tax Increment Fund.

**The City is not required under Texas law or any contract to set a tax rate sufficient to assure any certain dollar amount of Contract Tax Increments; rather, Texas law and the Tri-Party Agreement only require the City to contribute the Tax Increments actually collected by it and only to the extent provided in the Tri-Party Agreement and the Project and Financing Plan.** The City will set its tax rate in accordance with the Texas Property Tax Code (the "*Property Tax Code*"), which, as of January 1, 2020, requires an election to increase the tax rate above the voter-approval tax rate, as calculated pursuant to state law. See "TAXING PROCEDURES OF THE CITY--State Law Limitations on Setting the Annual Tax Rate."

The City's tax rate may be further limited by provisions added to its City Charter. In 2014, the City tax rate was limited for the first time by a revenue cap added to the City Charter in 2004. See "TAXING PROCEDURES OF THE CITY—City Charter Limitations." The cap has required the City to lower its tax rate in 2014, 2015, 2016, 2017, 2019 and 2020. The 2017 tax rate of \$0.584210 per \$100 valuation was more than 5 cents lower than the 2013 rate and the lowest since 1987. Under the revenue cap formula, the tax rate for 2018 rose slightly from 2017, but decreased in 2019 and 2020.

The City's tax rate for the 2020 tax year was \$0.561840 per \$100 valuation (more than a 2-cent reduction from the 2018 tax rate). See "FINANCIAL INFORMATION—Schedule 5: Tax Increment Collections" for tax rates from 2015 through 2020. If the tax rate of the City declines, the amount of Pledged Revenues available to pay debt service on the Bonds may decrease.



If the percentage of taxes collected by the City in the Zone declines, the amount of Pledged Revenues available to pay debt service on the Bonds may decrease. Historical tax collection rates may not accurately predict future tax collection rates.

The collection of, and accounting for, Tax Increments involve extensive administration and are subject to error. Moreover, detailed procedures for calculation and collection of Tax Increments are not set forth in the TIF Act and are implemented at the discretion of each taxing unit participating in a tax increment reinvestment zone.

### **Concentration of Risk**

Approximately 31.44% of the 2020 taxable value in the Zone was derived from property owned by the top ten taxpayers. See “STATUS OF DEVELOPMENT–Schedule 3: Principal Taxpayers in the Zone.” All of such properties were multifamily housing developments. A significant reduction in the value of these properties could adversely affect the amount of Contract Tax Increments available for payment of debt service on the Bonds. See “—Risks Related to Multifamily Housing” above.

### **Limitations on Tax Collections and Foreclosure Remedies**

The Authority’s ability to make debt service payments on the Bonds may be adversely affected by the City’s inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by a taxing unit constitutes a lien on the property against which taxes are levied and such lien may be enforced by foreclosure. Foreclosure must be effected through a judicial proceeding. The City’s ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or economic and market conditions affecting the marketability of taxable property within the Zone and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the Zone available to pay debt service on the Bonds may be limited by the current aggregate tax rate being levied against the property and by other factors, including the taxpayers’ right to redeem property within two years of foreclosure for residential homestead and agricultural use property and within six months of foreclosure for other property. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the Zone pursuant to the United States Bankruptcy Code (the “*Bankruptcy Code*”) could stay any attempt by the City to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years, and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. The Authority has no control over the collection of property taxes by the City.

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 (1) 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, (2) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (3) 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. These provisions may affect the timeliness of collection of taxes on property which may be owned in the future by the FDIC in the Zone and may prevent the collection of penalties and interest on such taxes.

### **Growth Limited by Air Quality Issues**

Air quality control measures required by the United States Environmental Protection Agency (the “*EPA*”) and the Texas Commission on Environmental Quality (“*TCEQ*”) may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area (“*HGB Area*”) was designated by the EPA as a non-attainment area under the EPA’s ozone standards, and the EPA and the TCEQ have imposed limitations on sources of air emissions and

require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB Area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, and may impose severe emissions offset requirements on new major sources of hydrocarbon emissions for which construction has not already commenced.

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 SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany the 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 make the Houston area a less attractive location to businesses in comparison to other areas of the country that do not impose similarly stringent air emissions controls.

### **Recent Flood Plain and Development Regulations Might Impede New Development**

As a direct result of Hurricane Harvey, the City adopted new rules and amended existing regulations in order to reduce the potential impact of new development on drainage and to mitigate flooding risks. The new and amended City regulations took effect on September 1, 2018.

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

These regulations are expected to increase the costs of new developments in the City and could deter the development of new improvements in the Zone.

### **Risk of Issuance of Additional Contract Revenue Bonds**

The Authority has reserved the right to issue Additional Parity Bonds which are secured by the Pledged Revenues on an equal basis with the then-outstanding Contract Revenue Bonds. The issuance of Additional Parity Bonds, may adversely affect the investment security of the outstanding Contract Revenue Bonds. For a description of the circumstances under which Additional Parity Bonds may be issued and the Authority's issuance plans, see "SOURCE OF AND SECURITY FOR PAYMENT—Additional Parity Bonds" and "PLAN OF FINANCING."

### **Risk of Obligations to Developers**

The Authority has entered into agreements with two developers (the "*Project Agreements*"), which require the Authority to pay certain Contract Tax Increments to each of them subject to the conditions in the applicable agreement. Each Project Agreement is an unsecured obligation of the Authority payable only from certain Contract Tax Increments arising from the applicable project. The Authority has sized its bond issue to take into account other obligations payable from Contract Tax Increments, including amounts due under the Project Agreements. Payments made under the Project Agreements may decrease the Authority's reserves and liquidity. See "FINANCIAL INFORMATION—Additional Obligations of the Authority."

### **Risk of Higher Priority Debt**

The obligation of the City to pay Tax Increments into the Tax Increment Fund is subject to the rights of any of the holders of bonds, notes or other obligations that have been or are hereafter issued by the City that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the City. If taxable values in the City decline so that it cannot pay its outstanding tax-supported indebtedness without use of Tax Increments, there may be insufficient remaining Tax Increments to pay the Bonds. The City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's

outstanding tax obligations, with the remaining revenues to be apportioned among the City's respective departments. In future fiscal years, the amount of the tax levy allocated to debt service on the City's tax bonds may need to be increased, reducing the amount allocable for transfer to the Tax Increment Fund and the delivery of essential governmental services if there is no corresponding increase in the overall tax levy or other revenues.

### **Limited Remedies After Default**

Remedies in the event of a default by the Authority in one or more of its obligations under the Bonds, the Bond Order or the Indenture are limited. Although the Indenture provides that the Trustee may obtain a writ of mandamus requiring performance of such obligations, such remedy may prove time-consuming, costly and difficult to enforce. Neither the Bond Order nor the Indenture provides for acceleration of maturity of the Bonds, or provides for the foreclosure of any property or assets other than applying the Pledged Revenues to payment of the Bonds in the manner provided in the Indenture. See "—Risk of Bankruptcy" below.

### **Risk of Bankruptcy**

Under the Bankruptcy Code as interpreted by court cases, it is likely (but not certain) that the Authority would fall within the Bankruptcy Code's definition of a "governmental unit." A "governmental unit" may not be placed into bankruptcy involuntarily and may not file a petition for relief under either Chapter 7 or Chapter 11 of the Bankruptcy Code.

The Bankruptcy Code also provides that the only type of "governmental unit" that can voluntarily file for bankruptcy is a "municipality" (as defined in the Bankruptcy Code) and then only if it is authorized to do so by its state law or by an officer of the state authorized to grant such authority. Under the Bankruptcy Code and current case law interpreting it, it is doubtful that the Authority is a "municipality" and if it were, there is no specific authorization under Texas law for local government corporations such as the Authority to file for bankruptcy.

If the Authority were to be placed into bankruptcy or successfully file for bankruptcy, the security for the Bonds, including the lien on the Pledged Revenues, could be adversely affected. The opinion of Bond Counsel will note that all opinions relative to enforceability of the Bond Order, the Indenture and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to debtors under the Bankruptcy Code.

### **Dependence on Contract Payments**

In order for owners of the Bonds to receive principal of and interest as due, the City must perform its obligations under the Tri-Party Agreement, which include transferring the Contract Tax Increments to the Authority on the schedule set forth in the Tri-Party Agreement. Transfer of funds to the Authority cannot occur unless such funds are appropriated to the Authority by action of the City Council of the City. Bondholders have no right to enforce the City's obligation to pay Contract Tax Increments to the Authority directly or to seek monetary damages against the City. If the Authority or the Trustee were to seek to enforce the City's obligations under the Tri-Party Agreement, they could be limited or prohibited if the City filed for bankruptcy under the Bankruptcy Code or similar state laws.

### **Failure to Generate Sufficient Tax Increments Prior to Termination of Zone**

The Zone was created by the City Council of the City on December 18, 1996, and currently is scheduled to terminate on December 31, 2048. If Tax Increments collected prior to termination of the Zone have been insufficient to pay principal of and interest on the Bonds when due, no additional Tax Increments are required to be collected, and no remedies are available to the Bondholders to recover amounts remaining unpaid but with respect to which Tax Increments have been insufficient.

The TIF Act permits the City Council of the City to shorten or lengthen the term of the Zone. In the Tri-Party Agreement, the City has agreed not to terminate the Zone unless it makes satisfactory arrangements to provide for payment of the Authority's outstanding bonds, notes and obligations to developers and builders in the Zone.

## **Risk of Failure to Comply with Certain Covenants**

Failure of the Authority to comply with certain covenants contained in the Bond Order and the Indenture on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

## **Changes in Law**

Current law may change so as to directly or indirectly reduce Tax Increments available to the Authority or eliminate the benefit to local governments of participating in tax increment reinvestment zones. The Texas Legislature meets biennially in odd numbered years and frequently makes changes to the TIF Act and the Property Tax Code. Changes to the Property Tax Code can also affect the valuation of property in the Zone. The Authority has no control over these changes.

## **Limited Marketability of the Bonds**

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

## **Bond Insurance Risk Factors**

The Authority entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “*Bond Insurer*”) for the purchase of a municipal bond insurance policy on the Bonds (the “*Policy*”) which will guarantee the scheduled payment of principal of and interest on the Bonds. At the time of entering this agreement, the Bond Insurer was rated “AA” (stable outlook) by S&P. See “BOND INSURANCE” and “MUNICIPAL BOND RATINGS.”

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

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

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

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

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

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

### **Reliance on Debt Service Reserve Fund and Use of Reserve Fund Surety Policy**

In lieu of making a cash deposit to the Debt Service Reserve Fund, the Authority is using Bond proceeds to purchase a Reserve Fund Surety Policy (as defined below) from the Insurer. The Reserve Fund Surety Policy is in an amount equal to the Reserve Requirement.

A “Reserve Fund Surety Policy” is defined as an insurance policy or other credit agreement as such term is defined by Section 1371.001, Texas Government Code, in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating (at the time of purchase thereof) for its long term unsecured debt or claims paying ability of at least “A” or its equivalent (without regard to any modifier) by a nationally recognized statistical rating organization.

The financial strength and claims paying ability of the Bond Insurer are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer 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. There is no obligation on the part of the Authority to replenish the Debt Service Reserve Fund if the ratings of the Bond Insurer are downgraded or the Bond Insurer becomes insolvent or bankrupt.

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

The Debt Service Reserve Fund is to be utilized when there are insufficient funds in the Debt Service Fund to pay principal and interest coming due on the Contract Revenue Bonds. However, the amount of the Debt Service Reserve Fund is limited to the Reserve Requirement and may not be sufficient to pay debt service on the Contract Revenue Bonds, depending upon the amount, duration and frequency of the shortage in Pledged Tax Increments. The Bond Insurer may require that cash in the Debt Service Reserve Fund, if any, be used prior to the Reserve Fund Surety Policy. If the Reserve Fund Surety Policy is utilized, the Authority is required to repay the Bond Insurer, along with costs and accrued interest. The Authority may not have sufficient Pledged Tax Increments to repay the Bond Insurer. In such event the Bond Insurer may be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than (i) acceleration of the maturity of the Bonds, or (ii) remedies which would adversely affect the owners of any Additional Parity Bonds.

In the event the Authority elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund for the Contract Revenue Bonds, it may apply any bond proceeds thereby released, to the greatest extent permitted by law, to any purposes for which that series of Contract Revenue Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used.

## THE BONDS

### Description

The Bonds will be issued in the aggregate principal amount and will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will accrue from the Delivery Date. Interest on the Bonds is payable on each March 1 and September 1, commencing September 1, 2021, until the earlier of maturity or redemption. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000.

### Book-Entry Only System

The information in this section concerning DTC, Cede & Co. and the book-entry system has been furnished by DTC for use in disclosure documents such as this Official Statement. The Authority and the Underwriters believe such information to be reliable, but neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness thereof.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a rating of "AA+" from S&P Global Ratings ("*S&P*"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 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 (the "*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 confirmation 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 the 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 Participants and the 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 Indenture. 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 interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend 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 issuer or paying agent of the Bonds, 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 DTC nor its nominee, the paying agent or the issuer of the Bonds, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or paying agent of the Bonds, disbursement of such payments to Direct Participants will be the responsibility to DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct Participants and the Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the issuer or the paying agent of the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In the event of such discontinuance, certificates will be printed and delivered.

### **Method of Payment of Principal and Interest**

In the Bond Order, the Board has appointed Regions Bank, an Alabama banking corporation, as the initial Paying Agent/Registrar for the Bonds (together with any successors, the "*Paying Agent/Registrar*"). The principal of the Bonds will be payable to the registered owners of the Bonds (the "*Registered Owners*"), initially Cede & Co., without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon presentation and surrender of the Bonds as they respectively become due and payable, at the designated corporate trust office of the

Paying Agent/Registrar. In the event the book-entry-only system is discontinued, interest on each Bond will be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (each a “Record Date”), to the address of such Registered Owner as shown on the Paying Agent/Registrar’s records (the “Register”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of principal of or interest on any Bond is not a business day, then the date for such paying will be the next succeeding business day, as defined in the Bond Order. If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty days thereafter, the Paying Agent/Registrar is required to establish a new record date for the payment of such interest (a “Special Record Date”) when funds to make such payment are received from or on behalf of the Authority. Such Special Record Date is required to be fifteen days prior to the date fixed for payment of such past due interest.

**Redemption Provisions**

*Optional Redemption.* The Authority reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2031, prior to their scheduled maturities, in whole or from time to time, in part, in integral multiples of \$5,000 on September 1, 2030, or any date thereafter, at a price equal to par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the Authority.

*Mandatory Redemption.* The Term Bonds maturing on September 1 of the years 2039, 2043 and 2048 will be mandatorily redeemed by the Authority prior to their scheduled maturity dates on the dates and in the principal amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

**\$3,145,000 Term Bond due September 1, 2039**

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2038	\$1,550,000
2039 (maturity)	1,595,000

**\$6,885,000 Term Bond due September 1, 2043**

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2040	\$1,645,000
2041	1,695,000
2042	1,745,000
2043 (maturity)	1,800,000

**\$9,855,000 Term Bond due September 1, 2048**

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
2044	\$1,855,000
2045	1,910,000
2046	1,970,000
2047	2,030,000
2048 (maturity)	2,090,000

The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to the mandatory sinking fund redemption schedule set forth above will be reduced by the principal amount of the Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) have been acquired by the Authority at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation, or (ii) have been redeemed pursuant to optional redemption and not previously credited to a mandatory sinking fund redemption.



*General Redemption Provisions.* During any period in which ownership of the Bonds is in book-entry-only form, if fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds of such maturity to be redeemed will be selected in accordance with the arrangements between the Authority and DTC; provided, that if any Bond is selected for redemption in part, it shall not be redeemed in an amount that would result, upon exchange, in a Bond in a denomination less than \$5,000.

### **Notice of Redemption**

Notice of redemption will be given by the Paying Agent/Registrar not less than 30 days prior to the date of redemption by United States mail, first class, postage prepaid, to the Registered Owners of Bonds called for redemption at the address on the Register maintained by the Paying Agent/Registrar. Notice having been given in the manner and under the conditions provided in the Bond Order and monies for the payment of the redemption price being held by the Paying Agent/Registrar, the Bonds designated for redemption described above will be due and payable at the redemption price specified above and interest thereon will cease to accrue on such Bonds, and such Bonds will cease to be entitled to any lien, benefit or security under the Bond Order and shall not be deemed to be outstanding thereunder. The owners of such Bonds will have no right in respect thereof except to receive payment of the redemption price thereof.

### **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the Register at its designated corporate trust office, and subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

In the event the book-entry-only system is discontinued, each Bond will be transferable only upon the presentation and surrender of such Bond at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the Authority to authenticate and deliver in exchange therefor, within three business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, aggregate principal amount, and Dated Date, and bearing interest at the same rate as the Bond or Bonds so presented.

In the event the book-entry-only system is discontinued, all Bonds will be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds in accordance with the provisions of the Bond Order. Each Bond delivered will be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the Authority nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending on the next succeeding Interest Payment Date (including any Special Record Date) or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption and ending on the date fixed for redemption; provided, however, that such limitation will not apply to the exchange by the Registered Owner of the unredeemed portion of a Bond called for redemption in part.

The Authority or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange will be paid by the Authority.

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

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

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

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar will authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the Authority, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed Bonds will be required to pay the Authority's cost to replace such Bonds. In addition, the Authority or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

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

Pursuant to Chapter 1201, Texas Government Code, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees and for the sinking funds of cities, town, villages, school districts and other political subdivisions or public agencies of the State of Texas. The Bonds are not an authorized investment for political subdivisions that are required to comply with the Public Funds Investment Act, Chapter 2256, Texas Government Code. Most political subdivisions in the State of Texas are required to adopt investment guidelines consistent with the Public Funds Investment Act. However, political subdivisions otherwise subject to the Public Funds Investment Act may have statutory authority to invest in the Bonds independent from the Public Funds Investment Act. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas, or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

The Authority has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The Authority has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

## **Defeasance**

The Authority may defease any or all of the Bonds pursuant to the provisions of the Bond Order and discharge its obligations to the Registered Owners 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, with the Paying Agent/Registrar or with any other escrow agent so authorized by law either (i) cash in an amount equal to the principal amount and redemption amount, if any, of the Bonds plus interest thereon to the date of maturity or redemption or (ii) pursuant to an escrow or trust agreement, cash and (x) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (y) 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 Authority adopts or approves the proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (z) 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 Authority adopts or approves the proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the 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 Authority 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 Authority: (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.

### **THE INDENTURE OF TRUST**

Pursuant to the Indenture, the Authority has assigned all of the Authority's right, title and interest in and to the Pledged Revenues, including the Pledged Tax Increments, to the Trustee for the benefit, on an equal and ratable basis, of the holders of the Contract Revenue Bonds, including the Bonds and any Additional Parity Bonds.

Pursuant to the Indenture, the Trustee is to maintain the Pledged Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Project Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Contract Revenue Bonds. The Pledged Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Project Fund are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts deposited into the Debt Service Reserve Fund shall be used to pay interest on and principal of the Contract Revenue Bonds when insufficient funds are available for such purpose in the Debt Service Fund or may be applied toward the payment of principal or interest on the Contract Revenue Bonds in connection with the refunding or redemption of such Bonds.

#### **The Funds**

The Indenture creates the following funds, each of which (except the Surplus Fund) shall be maintained by the Trustee:

- (a) the Pledged Revenue Fund, into which all Pledged Revenues shall be deposited;
- (b) the Debt Service Fund, into which deposits shall be made from the Pledged Revenue Fund as described below, and from which deposits shall be applied to the payment of interest and principal installments on the Contract Revenue Bonds as the same becomes due;
- (c) the Debt Service Reserve Fund, which shall be initially funded from proceeds of each series of Contract Revenue Bonds, or a Reserve Fund Surety Policy, and into which deposits from the Pledged Revenue Fund shall be made to attain the Reserve Requirement, and from which monies shall be applied to the Debt Service Fund if amounts in the Pledged Revenue Fund and Debt Service Fund are insufficient to pay the amounts of principal and interest due on the Contract Revenue Bonds;

- (d) the Project Fund, which will be maintained by the Authority and funded initially from Contract Revenue Bond proceeds and disbursed by the Trustee immediately, free and clear of any lien created by the Indenture, to pay costs of issuance and to deposit with the Authority to pay Project Costs as provided in the applicable Bond Order;
- (e) the Rebate Fund, which shall be free and clear of any lien created by the Indenture, and into which certain amounts earned by the Authority on the investment of the “gross proceeds” of the Contract Revenue Bonds (within the meaning of section 148(f)(6)(B) of the Internal Revenue Code of 1986, as amended (the “Code”) shall be deposited for rebate to the United States federal government, all as provided in the Bond Order with respect to each series of Contract Revenue Bonds; and
- (f) the Surplus Fund, into which shall be deposited any amounts remaining in the Pledged Revenue Fund.

Pledged Revenues deposited in the Pledged Revenue Fund shall be applied by the Trustee as follows: (i) to the Debt Service Fund amounts necessary to make the amounts on deposit therein equal to the interest and principal installments due in the next twelve month period; (ii) to the Debt Service Reserve Fund amounts required to attain the Reserve Requirement; (iii) to the payment of fees and expenses of the Trustee and Paying Agent/Registrar; (iv) to the extent required, to the Rebate Fund any amounts required to be deposited therein; and (v) to the Surplus Fund of the Authority established in accordance with the Tri-Party Agreement, for use by the Authority for any lawful purpose. Monies can be transferred from the Pledged Revenue Fund to the Project Fund (instead of the Surplus Fund) at the discretion and written direction of the Authority given at the time moneys are received in the Pledged Revenue Fund, provided that immediately prior to any such transfer the deposits required by clauses (i), (ii), (iii) and (iv) above have been made or provided for.

#### **Events of Default**

The Indenture provides that an Event of Default shall be either of the following occurrences:

- (a) Failure to pay when due the interest and principal installment on any Contract Revenue Bond; or
- (b) Failure to deposit to the Debt Service Fund money sufficient to pay any principal of or interest on any Contract Revenue Bond no later than the date when such becomes due and payable.

#### **Remedies**

Upon the occurrence of an Event of Default, the Trustee, subject to the other provisions of the Indenture, may, and at the direction of the Registered Owners of not less than 25% of the aggregate principal amount of the Contract Revenue Bonds then outstanding, shall proceed to protect and enforce its rights and the rights of the Registered Owners of the Contract Revenue Bonds by suit, action or proceeding at equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, the Contract Revenue Bonds or resolutions authorizing the Contract Revenue Bonds, or in aid of the execution of any power granted in the Indenture or for the enforcement of any of the legal, equitable or other remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or Registered Owners, including, without limitation, requesting a writ of mandamus issued by a court of competent jurisdiction compelling the directors and other officers of the Authority to make such payment (but only from and to the extent of the sources provided in the Indenture and the Tri-Party Agreement) or to observe and perform its other covenants, obligations and agreements in the Indenture or the Tri-Party Agreement. The Indenture provides that the Trustee may seek the appointment of receivers, may act without possession of the Contract Revenue Bonds, subject to provisions in the Indenture, may act as attorney in fact for the Registered Owners of the Contract Revenue Bonds, no remedy is exclusive and that the delay or omission in the exercise of any right or remedy will not constitute a waiver.

The Indenture does not provide for any acceleration of maturity of the Contract Revenue Bonds or provide for the foreclosure upon any property or assets of the Authority or the City, other than applying the Pledged Revenues in the manner provided in the Indenture.

### **Limitation on Action by Owners**

The Indenture imposes certain limitations on Registered Owners to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Trustee shall have received the written request of the Registered Owners of not less than 25% of the aggregate principal amount of all Contract Revenue Bonds and the Trustee shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Contract Revenue Bonds will have the right, by written instrument delivered to the Trustee, to direct to the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture.

### **Amendments to the Indenture**

Without the consent of the Registered Owners, the Authority and the Trustee may from time to time enter into one or more indentures supplemental to the Indenture, which shall form a part of the Indenture, for any one or more of the following purposes:

- (a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Registered Owners of the Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners of the Contract Revenue Bonds or the Trustee or either of them;
- (c) to subject to the lien of the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (e) to obtain bond insurance for the Contract Revenue Bonds, if any;
- (f) to provide for one or more Reserve Fund Surety Policies;
- (g) to permit the assumption of the Authority's obligations thereunder by any entity that may become the legal successor to the Authority; and
- (h) to issue any Contract Revenue Bonds or issue any bonds, notes, or other obligations secured in whole or in part by liens on all or part of the Pledged Revenues that are junior and subordinate to the lien on the Pledged Revenues securing payment of the Contract Revenue Bonds;

provided, however, that no provision in such supplemental indenture is permitted to be inconsistent with the Indenture or to impair in any manner the rights of the Registered Owners of the Contract Revenue Bonds.

Except as provided in the preceding paragraph, any modification, change or amendment of the Indenture may be made only by a supplemental indenture adopted and executed by the Authority and the Trustee with the consent of the Registered Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then outstanding. However, without the consent of the Registered Owner of each outstanding Contract Revenue Bond, no modification, change or amendment to the Indenture shall:

- (1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or the rate of interest thereon, or make the principal thereof or premium, if any, or interest thereon payable in any coin or currency other than that of the United States, or deprive such Registered Owner of the lien of the Indenture on the revenues pledged thereunder; or
- (2) change or amend the Indenture to permit the creation of any lien on the revenues pledged under the Indenture equal or prior to the lien thereof, or reduce the aggregate principal amount of Contract Revenue Bonds.

### **Resignation of Trustee**

The Trustee may at any time resign and be discharged from the trusts created by giving written notice to the Authority and by providing written notice to the Registered Owners of its intended resignation at least sixty (60) days in advance thereof. Such notice will specify the date on which such resignation will take effect and will be sent by first class mail, postage prepaid to each Registered Owner of Contract Revenue Bonds. Resignation by the Trustee will not take effect unless and until a successor to such Trustee shall have been appointed as provided in the Indenture.

### **Removal of Trustee**

The Trustee or any successor Trustee may be removed (a) at any time by the Registered Owners of a majority in aggregate principal amount of the Contract Revenue Bonds then outstanding, (b) by the Authority for cause or upon the sale or other disposition of the Trustee or its trust functions or (c) by the Authority without cause so long as no event of default exists or has existed within the last 90 days, upon payment to the Trustee so removed of all money then due to it under the Indenture and appointment of a successor thereto by the Authority and acceptance thereof by the successor.

### **Appointment of Successor Trustee**

In case the Trustee shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Registered Owners of a majority in principal amount of the Contract Revenue Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Registered Owners or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Authority; provided, however, that in any of the events above mentioned, the Authority may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Registered Owners in the manner above provided, and any such temporary Trustee so appointed by the Authority will immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Registered Owners. The Authority will provide written notice to the Registered Owners of the appointment of any successor Trustee, whether temporary or permanent, in the manner provided for providing notice of the resignation of the Trustee as described above under “—Resignation of Trustee.” Any successor Trustee or temporary Trustee will be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

In the event that following the occurrence of any of the events described in the first sentence of the foregoing paragraph, no successor Trustee shall have been appointed by the Registered Owners or the Authority, as provided in the Indenture, and have accepted such appointment, the Registered Owner of any Contract Revenue Bond or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

## STATUS OF DEVELOPMENT

### Conditions at Creation of the Zone

The Original Zone was created in 1996 and consisted of approximately 88 acres generally bounded by Washington Avenue on the north, the Washington Cemetery on the east, Memorial Drive on the south, and Heights Boulevard on the west. The Original Project and Financing Plan stated that the land in the Original Zone was primarily vacant and needed extensive environmental remediation.

### Development from Inception to Present

Since the base tax year of 1997, the Original Zone's taxable value has increased from \$26,633,950 to a 2020 taxable value of \$593,146,195. According to the Project and Financing Plan, much of what was formerly vacant land previously occupied by industrial uses has been converted into high-density residential and commercial development.

The Annexed Areas have also increased in taxable value. The 2007 Annexed Area originally consisted of public land along Buffalo and White Oak Bayous. Since the base tax year of 2007, the 2007 Annexed Area increased from a base value of zero to a 2020 taxable value of \$77,006,366.

The 2008 Annexed Area contained 38 acres primarily owned by a developer group. The taxable value of the 2008 Annexed Area has increased from a 2008 base value of \$41,173,587 to a 2020 taxable value of \$167,068,772. Included within the 2008 Annexed Area is The Sovereign, a 21-story multifamily development built in 2012.

The 2009 Annexed Area consisted of 0.1 acre of land. It has gone from a base year value of \$277,242 to a 2020 taxable value of \$591,450. It consists of a prorated portion of The Legacy at Memorial Apartments.

The 2015 Annexed Area contained approximately 763 acres along Heights Boulevard, Shepherd Drive, Durham Drive and several blocks of development west of Durham between 17<sup>th</sup> and 21<sup>st</sup> Streets. The 2015 Annexed Area contained multifamily residential, commercial, office, and public and institutional improvements at the time the annexation. It has gone from a 2015 base value of \$943,595,443 to a 2020 taxable value of \$1,726,886,931.

Approximately 253 acres of public rights-of-way along the Buffalo Bayou were removed from the Zone in 2011. The removal had no impact on the taxable value of the Zone.

The Zone has extensive bike and walking trails within its boundaries.

### Projects Under Construction or Recently Completed

The second phase of the Regent Square development at 3515 W. Dallas Street is under construction and consists of a 590 unit multifamily building, approximately 50,000 square feet of retail and restaurant development, parking and various tenant amenities. See "FINANCIAL INFORMATION—Additional Obligations of the Authority."

Construction has begun on Phase I of Autry Park, a development by The Hanover Company, a Houston private real estate company. Phase I includes a 21-story tower with 324 units on Allen Parkway at Marston (a new street between Tirrell and Shepherd) and an eight-story building with 421 units on West Dallas Street at Marston. Phase I also includes 42,900 square feet of retail and restaurant development, parking garages and tenant amenities. Leasing is expected to begin in the fall of 2021. The company owns additional building sites adjacent to the Phase I improvements. See "FINANCIAL INFORMATION—Additional Obligations of the Authority."

Another multifamily development called Alta River Oaks is under construction at 3636 West Dallas at Shepherd. It is being developed by Wood Partners, a national multifamily developer.

In the Heights area of the Zone, the 15<sup>th</sup> Street Flats, an eight-story apartment complex with 337 units, and the Durham Heights Apartments, a five-story apartment complex with 281 units, were completed in 2020 and are currently being leased. They are located along Shepherd Drive in close proximity to area retail and restaurants.

The M-K-T development converted five industrial buildings on a 12-acre site into 200,000 square feet of offices, retail, restaurants and a fitness complex in 2020. The development is located along the Heights Hike and Bike Trail. The Heights Forum, a retail and office development consisting of approximately 25,000 square feet of retail space, is under construction on Shepherd.

There can be no assurance that projects under construction will be completed on a timely basis or at all.

**Schedule 2: Breakdown of 2020 Taxable Values in the Zone by Type**

	<u>Taxable Value (a)</u>	
Residential	\$ 665,353,205	25.94%
Multi-Family	900,111,767	35.10%
Vacant Land	183,123,020	7.14%
Commercial/Industrial	814,860,200	31.77%
Utilities	<u>1,221,522</u>	0.05%
	<u>\$ 2,564,669,714</u>	

(a) Based on City 2020 certified taxable value as of the date calculated, which results in a slightly different value than that shown on Schedule 1. Omits 2009 Annexed Area.

**Schedule 3: Principal Taxpayers in the Zone**

The largest taxpayer in the Zone is Buffalo Heights, a mixed-use development consisting of retail, office and residential space located at the intersection of Washington Avenue and Heights Boulevard. The development opened in October 2019. Google recently announced that it has leased a floor in Buffalo Heights for its cloud sales team. The developer of Buffalo Heights is planning a second phase of the development but has delayed it due to the impact of the Pandemic.

The following table represents the principal taxpayers in the Zone, the taxable assessed value of such taxpayer’s property, and such property’s assessed value as a percentage of the Zone’s taxable value, using the City’s certified values for 2020, 2019, and 2018. The values were compiled by the Authority’s tax consultant. The values are subject to change due to a pending tax protest or litigation contesting the value in state district court.

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**Top Ten Taxpayers for Year 2020**

<b>2020</b>	<b>Property Type</b>	<b>Tax Assessed</b>	
		<b>Value</b>	<b>%</b>
BKR Memorial II LLC	Mixed Use	\$ 115,395,875	4.50
SCG 525 Yale Street LLC	Multi Family	92,221,841	3.60
Sovereign Regent Square LLC	Multi Family	88,348,800	3.45
AMLI Memorial Heights SLP	Multi Family	87,903,318	3.43
Bel Estates I LLC Et Al	Multi Family	87,210,621	3.40
MAA Alloy LLC	Multi Family	75,005,888	2.93
Memorial Club East	Multi Family	68,715,314	2.68
BKR Memorial I LLC	Multi Family	67,557,834	2.63
CH Realty VIII PPIP MF	Multi Family	63,357,750	2.47
Holden Heights Ramona LLC Et Al	Multi Family	60,385,503	2.36
Total		\$ 806,102,744	31.44
Total Certified Taxable Value		\$ 2,564,108,264	

**Top Ten Improvements for Year 2019**

<b>2019</b>	<b>Property Type</b>	<b>Tax Assessed</b>	
		<b>Value</b>	<b>%</b>
AMLI Memorial Heights SLP	Multi Family	\$ 79,850,000	3.52
Bel Estates I LLC Et Al	Multi Family	79,200,000	3.49
SCG 525 Yale Street LLC	Multi Family	77,196,255	3.40
MAA Alloy LLC	Multi Family	69,180,234	3.05
Sovereign Regent Square LLC	Multi Family	75,000,000	3.31
BKR Memorial II LLC	Multi Family	65,678,685	2.89
Memorial Club East	Multi Family	59,112,280	2.61
BKR Memorial LLC	Multi Family	58,500,942	2.58
Holden Heights Ramona LLC Et Al	Multi Family	57,563,267	2.54
CH Realty VIII PPIP MF	Multi Family	56,553,874	2.49
		\$ 677,835,537	29.88
Total Certified Taxable Value		\$ 2,268,812,644	

**Top Ten Improvements for Year 2018**

<b>2018</b>	<b>Property Type</b>	<b>Tax Assessed</b>	
		<b>Value</b>	<b>%</b>
AMLI Memorial Heights SLP	Multi Family	\$ 83,752,843	4.23
Sovereign Regent Square LLC	Multi Family	80,567,800	4.07
Bel Estates I LLC Et Al	Multi Family	78,650,000	3.97
Mid America Apartments LP	Multi Family	73,986,715	3.74
BKR Memorial LLC	Multi Family	64,250,000	3.25
SCG 525 Yale Street LLC	Multi Family	58,415,217	2.95
Memorial Club East	Multi Family	56,810,000	2.87
Holden Heights Ramona LLC Et Al	Multi Family	56,640,824	2.86
Archstone Memorial Heights	Multi Family	53,649,900	2.71
Regent Square CD LLC	Vacant Commercial	52,167,879	2.64
		\$ 658,891,178	33.30
Total Certified Taxable Value		\$ 1,978,697,739	

## FINANCIAL INFORMATION

### Debt Service Requirements on the Contract Revenue Bonds

The following sets forth the debt service requirements on the Bonds, based upon a fiscal year end of June 30.

Fiscal Year	The Bonds		
	Principal	Interest	Total
2022	975,000	1,145,309	2,120,309
2023	835,000	1,284,350	2,119,350
2024	880,000	1,241,475	2,121,475
2025	925,000	1,196,350	2,121,350
2026	970,000	1,148,975	2,118,975
2027	1,020,000	1,099,225	2,119,225
2028	1,075,000	1,046,850	2,121,850
2029	1,130,000	991,725	2,121,725
2030	1,190,000	933,725	2,123,725
2031	1,250,000	872,725	2,122,725
2032	1,300,000	821,975	2,121,975
2033	1,340,000	782,375	2,122,375
2034	1,380,000	741,575	2,121,575
2035	1,415,000	706,725	2,121,725
2036	1,445,000	677,222	2,122,222
2037	1,475,000	646,197	2,121,197
2038	1,510,000	613,538	2,123,538
2039	1,550,000	573,300	2,123,300
2040	1,595,000	526,125	2,121,125
2041	1,645,000	477,525	2,122,525
2042	1,695,000	427,425	2,122,425
2043	1,745,000	375,825	2,120,825
2044	1,800,000	322,650	2,122,650
2045	1,855,000	267,825	2,122,825
2046	1,910,000	211,350	2,121,350
2047	1,970,000	153,150	2,123,150
2048	2,030,000	93,150	2,123,150
2049	2,090,000	31,350	2,121,350
Total	<u>\$ 40,000,000</u>	<u>\$ 19,409,990</u>	<u>\$ 59,409,990</u>

Average Annual Debt Service (2022-2049)	\$ 2,121,613
Maximum Annual Debt Service (2030)	\$ 2,123,725

## Authority to Issue Bonds and Notes

On April 29, 2020, the City Council authorized the Authority to issue bonds and notes in an aggregate principal amount not to exceed \$84,410,000 outstanding at any one time, which are secured by Contract Tax Increments. The City could authorize the Authority to issue additional bonds and notes in the future. As principal is paid, the Authority's unused authorization will increase in an amount equal to the amount of principal paid.

### Schedule 4: Authorized and Unissued Bonds and Notes

Total Authorized Amount of Bonds and Notes the City Council has	
Authorized to be Issued by the Authority	\$ 84,410,000
Less: The Bonds	40,000,000
Unused Authorization	<u>\$ 44,410,000</u>

### Additional Obligations of the Authority

The Authority has several obligations in addition to the Contract Revenue Bonds; however, none of such additional obligations is secured by the Contract Tax Increments. The following constitute the principal existing obligations of the Authority other than the Contract Revenue Bonds:

**Developer Agreement with Regent Square Owners.** The Authority and Zone entered into a Development Agreement with Regent Square AB LLC, a Delaware limited liability company, and Regent CD LLC, a Delaware limited liability company, dated as of April 14, 2009, which was subsequently assigned in part to AB Borrower LLC, a Delaware limited liability company. The Development Agreement was amended and restated as of September 13, 2011, assigned in part to Sovereign Regent Square LLC, a Delaware limited liability company, and Regent Square D2 LLC, a Delaware limited liability company, and amended as of December 12, 2016 and again in 2019.

The Amended and Restated Development Agreement, as amended (the "*Regent Square Agreement*") describes the development proposed by the owners of a mixed use development containing approximately 4,000,000 square feet, including 1,500 residential condominiums and rental units, approximately 400,000 square feet of retail and restaurants, approximately 250,000 square feet of office and approximately 4,200 parking spaces. At a minimum it is required to include at least two of the following uses: residential, retail, office and hotel, except that the first phase is permitted to consist only of residential development. The Regent Square Agreement also requires the owners to provide a certain number of public parking spaces within the development site and maintain a nearby cemetery.

The first phase of development was required to commence by December 31, 2012 and further qualifying phases were required to commence by December 31, 2019; however, the scale, pace, scope, phasing and logistics of all work in connection with the development is determined by the owners and development may cease for some period of time between phases or during a phase. According to the Authority, the owners have met the deadline for commencing the first phase of the development and the deadline for commencing the subsequent qualifying phases.

In connection with the construction of the development, the owners will design and construct the Public Improvements needed for the development, including water, sanitary and storm drainage, street lighting and landscaping, utility burial and street and sidewalk construction, and subsequently transfer the Public Improvements to the City. The Authority has agreed to reimburse the owners for such Public Improvements and impact fees the owners pay to the City from Developer Related Tax Increments generated from the Regent Square development (the "*Regent Square Developer Related Tax Increments*") in the maximum amount of \$13,406,590, subject to the owners' compliance with the terms of the Regent Square Agreement. Payment by the Authority will be due annually at such time as the Authority receives the Developer Related Tax Increments and interest will accrue if payment is not made within 45 days of submittal by the owners.

Regent Square Developer Related Tax Increments are defined as 50% of the Contract Tax Increments deposited into the Revenue Fund that are attributable to the development site less certain amounts the Authority must pay the City attributable to the development site. The base year for calculating the Regent Square Developer Related Tax Increments under the Regent Square Agreement is 2011 and Regent Square Developer Related Tax Increments do not include amounts attributable to the development site before January 1, 2016.

The Regent Square Agreement permits the Authority to issue Contract Revenue Bonds secured by the pledge of the Revenue Fund.

The Regent Square Agreement provides that if the owners default in their obligations under the agreement, the Authority's sole remedy is to terminate the agreement. If the Authority defaults in its obligations under the agreement, the owners may do any one or more of the following: enforce specific performance, seek actual damages, and terminate the agreement.

To date, the owners have completed the first phase of their development, a 21-story multifamily development, and the second phase is under construction. As of June 30, 2020, the Authority had reimbursed the owners \$1,125,568.83 for the Public Improvements they constructed and an additional \$2,085,683.17 was owed. On March 4, 2021, the Authority authorized an additional payment of \$264,284.44 to the owners.

***Developer Agreement with BB Land Development Holdings.*** In March 2019, the Authority and Zone entered into a Development Agreement (the "*BB Land Agreement*") with BB Land Development Holdings LLC, a Delaware limited liability company ("*BB Land*"), which is jointly owned by affiliates of Hanover Development Company and Limestone Investments.

The BB Land Agreement outlines a proposed mixed use project over seven sites, to be constructed in multiple phases, for multifamily, retail, office, condominium and/or park purposes. The development plan for the project is subject to change but BB Land agreed to provide a certain amount of retail space and a specified amount of public parking.

In connection with the construction of the development, BB Land will design and construct the Public Improvements needed for the development, including utilities, road work, streetscape, and signalization, and subsequently transfer the Public Improvements to the City. The Authority has agreed to reimburse BB Land for such Public Improvements from Developer Related Tax Increments generated from the BB Land project (the "*BB Land Developer Related Tax Increments*") in the maximum amount of \$20,743,589, subject to BB Land's compliance with the terms of the BB Land Agreement. BB Land will be eligible for reimbursement upon initial completion of the improvements on two building sites (planned for multifamily development with some retail) and the related Public Improvements and upon final completion of each phase of the development on the remaining sites. Payment by the Authority will be due annually at such time as the Authority receives the Developer Related Tax Increments.

BB Land Developer Related Tax Increments are defined in the BB Land Agreement as 50% of the Contract Tax Increments deposited into the Revenue Fund that are attributable to the development site less any amounts paid to the City by the Authority attributable to the development site, including City administrative fees and municipal services fees. The property purchased by BB Land was non-taxable at the time of its purchase. Rather than setting zero as the base year value for the property, the BB Land Agreement set \$74,963,845 as the base year value for purposes of calculating Developer Related Tax Increments.

The BB Land Agreement permits the Authority to issue Contract Revenue Bonds secured by the pledge of the Revenue Fund.

The BB Land Agreement provides that if BB Land defaults in its obligations under the agreement, the Authority's sole remedy is to terminate the agreement. If the Authority defaults in its obligations under the agreement, BB Land may do any one or more of the following: enforce specific performance, seek actual damages, and terminate the agreement.

To date, BB Land has not completed the initial phase of its development and is not eligible for any reimbursement from the Authority.

***Municipal Services Agreements.*** The Authority, the Zone and the City enter into annual agreements whereby the Authority pays to the City the incremental costs of providing increased municipal services incurred as a result of the development of the land in the Zone. Payment of the incremental service costs is from the City's Tax Increment and is limited to the available Tax Increment received by the Authority as defined in the agreement and the amount included in the Authority's annual approved budget. If the City's available Tax Increment is not sufficient in any year to pay the amount included in the approved budget, the amount due will accrue without interest. The agreement renews annually on June 30 upon a vote of the Board of Directors of the Authority. For fiscal year 2021, the City has requested, and the Authority has budgeted for a fee for incremental costs of providing increased municipal services in the amount of \$160,152. Unpaid amounts will accrue and be payable without interest in future years.

## **Investment Policy**

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

Texas statutes include specifications for and limitations applicable to the Authority and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds insured, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 365 days or less, (11) no load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools, and (14) a qualified securities lending program.

The Authority maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Investment Policy"). The Authority does not invest in, among other things, inverse floater, interest-only or principal-only mortgage-backed securities. The Investment Policy provides, among other things, that (i) an investment officer must submit quarterly investment reports to the Board and (ii) the Investment Policy must be reviewed annually by the Board.

**Schedule 5: Tax Increment Collections**

	Tax Year	Base Year Value (a)	Current Year Value (b)	Captured Appraised Value	Increment Tax Rate	Increment Collections (c)	Collection Rate (d)
<b>Original</b>	2015	\$ 26,633,950	\$ 426,275,445	\$ 399,641,495	\$0.60112	\$ 2,402,325	100.0%
	2016	26,633,950	452,327,217	425,693,267	0.58642	2,496,350	100.0%
	2017	26,633,950	438,517,433	411,883,483	0.58421	2,406,264	100.0%
	2018	26,633,950	441,604,134	414,970,184	0.58831	2,441,311	100.0%
	2019	26,633,950	509,753,804	483,119,854	0.56792	2,726,997	99.4%
<i>Projected</i>	2020	26,633,950	593,146,195	566,512,245	0.56184	3,179,009	99.9% (e)
<hr/>							
<b>Annexed 2007</b>	2015	\$ -	\$ 7,784,000	\$ 7,784,000	\$0.60112	\$ 46,744	99.9%
	2016	-	8,169,129	8,169,129	0.58642	47,862	99.9%
	2017	-	8,185,675	8,185,675	0.58421	47,783	99.9%
	2018	-	8,249,289	8,249,289	0.58831	48,497	99.9%
	2019	-	29,569,918	29,569,918	0.56792	167,446	99.7%
<i>Projected</i>	2020	-	77,006,366	77,006,366	0.56184	432,107	99.9% (e)
<hr/>							
<b>Annexed 2008</b>	2015	\$ 41,173,587	\$ 142,053,128	\$ 100,879,541	\$0.60112	\$ 606,407	100.0%
	2016	41,173,587	152,207,618	111,034,031	0.58642	651,126	100.0%
	2017	41,173,587	149,662,267	108,488,680	0.58421	633,802	100.0%
	2018	41,173,587	144,690,473	103,516,886	0.58831	609,000	100.0%
	2019	41,173,587	164,298,599	123,125,012	0.56792	540,242	77.3%
<i>Projected</i>	2020	41,173,587	167,068,772	125,895,185	0.56184	675,160	95.5% (e)
<hr/>							
<b>Annexed 2015</b>	2015	\$ 943,595,443	\$ 943,595,443	\$ -	\$0.60112	\$ -	99.9%
	2016	943,595,443	1,166,574,675	222,979,232	0.58642	1,304,457	99.8%
	2017	943,595,443	1,320,765,221	377,169,778	0.58421	2,201,701	99.9%
	2018	943,595,443	1,384,153,843	440,558,400	0.58831	2,586,406	99.8%
	2019	943,595,443	1,565,190,323	621,594,880	0.56792	3,440,496	97.5%
<i>Projected</i>	2020	943,595,443	1,726,886,931	783,291,488	0.56184	4,373,296	99.4% (e)

- (a) Base year for the Original Zone and 2007 Annexed Area is 1997, base year for the 2008 Annexed Area is 2008, and base year for the 2015 Annexed Area is 2015. The 2009 Annexed Area is omitted because its value is minimal.
- (b) Current year's values are received from the City's Department of Finance. They are subject to change for a number of years thereafter as corrections in the tax roll are made due to various factors such as omission of property, erroneous inclusion of property, or settlements of taxpayer litigation.
- (c) Includes Developer Related Tax Increments.
- (d) Collection rates are determined by comparing total collections to the total tax levy; however, both total collections and the total tax levy change over time, so a calculated collection rate may either increase or decrease. The City has been updating the certified value for each tax year and the total collections for each tax year annually in order to calculate the tax increments to be transferred to the Authority.
- (e) The projected collection rate is a five-year average. The collection rate for the most recent tax year is lower than the rate in previous years. Historically, the collection rate for a tax year has increased in subsequent years as more of the taxes are collected and remitted to the Tax Increment Fund. Accordingly, while 2020 taxes may not be collected in fiscal year 2021 in the percentages shown, the Authority expects that it will receive delinquent taxes from prior years in fiscal year 2021 which will result in the receipt of approximately the same amount of revenues as if the collection percentage of 2020 taxes were received in fiscal year 2021.

**Schedule 6: Debt Service Capacity/Coverage**

FYE	Audited Tax Increments Received or Receivable (a)	Less: City Administrative Fee (b)	Less: HISD Educational Facilities Set-Aside (c)	Less: Affordable Housing (d)	Less: Developer Related Tax Increments (e)	Remaining Contract Tax Increments (f)	Next Fiscal Year's Debt Service Requirements (g)	Debt Service Coverage
2015	\$ 4,057,459	\$ 178,651	\$ 461,025	\$ 1,024,339	\$ -	2,393,444	n/a	n/a
2016	4,734,617	236,731	473,024	1,240,307	-	2,784,555	n/a	n/a
2017	6,412,424	294,330	487,805	1,120,361	141,446	4,368,482	n/a	n/a
2018	6,031,567	301,309	5,392	-	183,896	5,540,970	n/a	n/a
2019	5,614,604	280,730	-	-	273,380	5,060,494	n/a	n/a
2020	6,605,739 (h)	236,470	-	-	262,565	6,106,704	n/a	n/a

- (a) City tax payments are deposited into the General Fund of the City. Once such funds are accounted for and allocated to the Zone, the Tax Increment portion of the City tax payments is deposited to the Tax Increment Fund for the Zone. The City Council must appropriate the monies from the Tax Increment Fund to those entitled to them, including the Authority, before such monies are disbursed. City Council appropriation of tax increments to the Authority is normally made on or about July 1 of each year. Payments shown here are derived from the Authority’s audited financial statements which are on an accrual basis. The formula for determining tax increments is described in “OFFICIAL STATEMENT SUMMARY—Schedule 1: Selected Financial Information (Unaudited).”
- (b) The City may retain a reserve of up to five percent of the monies then available in the Tax Increment Fund attributable to the Zone under the Tri-Party Agreement. An additional \$25,000 fee was charged for years in which HISD participated in the Zone. See “SOURCE OF AND SECURITY FOR PAYMENT—Contract Tax Increments Defined.”
- (c) A portion of the Tax Increments deposited into the Tax Increment Fund by HISD were returned to HISD for educational facilities costs with interest on such funds for the period in which the City held the funds. HISD no longer contributes Tax Increments to the Tax Increment Fund.
- (d) The Authority was required to contribute a portion of certain Tax Increments to the City for an affordable housing program. There are no such obligations at this time.
- (e) The amount of Developer Related Tax Increments will depend upon the taxable value generated by the developers with Development Agreements with the Authority and the Zone and the amount of reimbursable Public Improvements due to them. See “FINANCIAL INFORMATION—Additional Obligations of the Authority.”
- (f) Remaining Contract Tax Increments shown through FY 2020 were unencumbered. After issuance of the Bonds, all Contract Tax Increments received by the Authority other than Developer Related Tax Increments will be pledged by the Authority to secure the Bonds and any Additional Parity Bonds or permitted subordinate obligations.
- (g) The Authority had no debt in the time periods shown.
- (h) The fiscal year 2020 Contract Tax Increments received by the Authority were \$4,729,395 because the City netted out overpayments in fiscal year 2014, 2015, 2016 and 2017 due to an error which included tracts of property which were only partially within the Zone. The audit shows this reduction as a prior period adjustment. See “APPENDIX B—Audited Financial Statements of the Authority—Note 7;” “INVESTMENT CONSIDERATIONS—Recalculation of Prior Years’ Tax Increment.”

**MEMORIAL HEIGHTS REDEVELOPMENT PLAN**

**The Zone**

The Zone currently consists of approximately 1,410 acres located north and/or west of the central business district of the City generally along Buffalo or White Oak Bayous or within the neighborhood known as The Heights.

In accordance with the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code (the “TIF Act”), the City Council of the City created the Zone on December 18, 1996 by Ordinance No. 1996-1337 (the “City Creation Ordinance”). The City Creation Ordinance provided that the Zone would take effect on January 1, 1997 and would terminate on December 31, 2016, or at an earlier time designated by subsequent ordinance of the City, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, and the interest on the bonds have been paid in full. By City Ordinance No. 2010-996, approved on December 8, 2010, the City extended the termination date of the Zone from December 31, 2016 to December 31, 2029. By City Ordinance No. 2018-1022, approved on December 19, 2018, the City extended the termination date of the Zone from December 31, 2029 to December 31, 2048.

The City Creation Ordinance also formed a board of directors of the Zone (the “Zone Board”) and established the Tax Increment Fund for the Zone. The Zone Board consists of seven members. Pursuant to the City Creation Ordinance, Positions One through Five were reserved for the City and Positions Six and Seven were reserved for other taxing units levying taxes within the Zone, each of whom could appoint one director. If a taxing unit failed to appoint a director by January 1, 1998, the City was entitled to appoint a director to that position. The City Creation Ordinance provides that the Mayor is authorized to nominate and appoint the directors assigned to the City and any position unfilled on January 1, 1998, subject to the consent and approval of the City Council. Terms are for two years. The Mayor is authorized to annually nominate and appoint, subject to City Council approval, the member of the Zone Board who will serve as chair. These terms are for one year. The Zone Board is authorized to elect from its members a vice chair and such other officers as it sees fit.

The Original Zone consisted of approximately 88 acres. On October 10, 2007, the City Council of the City approved the annexation of the 2007 Annexed Area into the Zone by City Ordinance No. 2007-1142. The annexation increased the Zone by approximately 774 acres. On December 17, 2008, the City Council of the City approved the annexation of the 2008 Annexed Area into the Zone by City Ordinance No. 2008-1204. The annexation increased the Zone by approximately 38 acres. On March 25, 2009, the City Council of the City approved the annexation of the 2009 Annexed Area into the Zone by City Ordinance No. 2009-235. This annexation increased the Zone by approximately 0.10 acres. On November 7, 2011, the City Council of the City approved removing approximately 253 acres from the Zone by City Ordinance No. 2011-907. Finally, on November 4, 2015, the City Council of the City approved the annexation of the 2015 Annexed Area into the Zone by City Ordinance No. 2015-1047. This annexation increased by the Zone by approximately 763 acres.

Under the Project and Financing Plan for the Zone, the City contributes 100% of its collected Tax Increments arising from the Zone to the Tax Increment Fund during the term of the Zone. The City is currently the only taxing unit which contributes Tax Increments to the Zone. Previously, HISD and the County also contributed their Tax Increments arising from the Zone to the Tax Increment Fund; however, their obligations to do so have now concluded and they no longer participate in the Zone.

### **The Authority**

The Authority’s creation was authorized by City Resolution No. 97-67, adopted by the City Council of the City on December 10, 1997. The Authority was created as a local government corporation pursuant to the provisions of Chapter 431, Texas Transportation Code, and Chapter 394, Texas Local Government Code. According to its articles of incorporation, the Authority is organized as a public nonprofit corporation for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the area included in the Zone and neighboring areas, and to promote, develop, encourage, and maintain housing, employment, commerce and economic development in the City. The Authority is further organized to assist the City and the Zone Board in the preparation and implementation of project plans, in the development of a policy to finance development and redevelopment of residential and commercial properties in the Zone, and in the development and implementation of a redevelopment policy for the Memorial Heights area, including the acquisition of land for redevelopment purposes.

The articles of incorporation provide that the Authority will be managed by a board of directors consisting of seven persons. Any director may be removed from office at any time, with or without cause, by the City Council. According to the by-laws of the Authority, Positions One through Five on the Board will be appointed by the Mayor of the City with the consent and approval of the City Council of the City. The bylaws provide that Positions Six and Seven will be reserved for nominees of the first two taxing units which appoint persons to the Zone Board, and that the Mayor will appoint those persons to the Board, subject to confirmation by the City Council. If two taxing units do not nominate persons to Positions Six and Seven, the Mayor of the City, with the consent of the City Council, will appoint persons to those positions. The bylaws further provide that the Chair of the Board will always be appointed by the Mayor of the City.

The Authority’s operations are governed by the Tri-Party Agreement. Its operations are currently funded by proceeds of the Contract Tax Increments paid to the Authority by the City pursuant to the Tri-Party Agreement and as described herein. Currently, the Authority has no employees but contracts with third parties to provide administrative, management and special services to the Zone and the Authority; however, the Authority anticipates making its President an employee of the Authority.



## **Project and Financing Plans Prior to 2018**

The Original Project and Financing Plan for the Zone (the “*Original Plan*”) was approved by the City on May 21, 1997 by City Ordinance No. 97-594. According to the executive summary provided, the creation of the Zone was necessary in order to redevelop the land included within the Original Zone because of the extensive environmental remediation needed and because of the insufficient utility infrastructure. The Original Plan called for redevelopment of the Original Zone into a master-planned, mixed-use, residential development. The Original Plan provided for one-third of the Tax Increments derived from HISD taxes to be used for educational facilities costs and the remainder of HISD’s Tax Increments and Tax Increments from the County and City to be used to reimburse the developer of the land for the costs of Public Improvements, such as real property assembling and associated costs, environmental remediation, public utilities, utility impact fees, paving, landscaping, improvements to Spotts Park, intersection improvements, and the pedestrian bridge and improvements to tie into the Houston Bikeways/Memorial Trail system.

Numerous amendments to the Original Plan have followed. A First Amendment to the Original Plan was approved by the City on August 11, 1999 by City Ordinance No. 1999-823. Its main purpose was to further reflect the participation of HISD in the Zone. A Second Amendment to the Original Plan was approved by the City on September 2, 2008 by City Ordinance No. 2008-784. This Second Amendment provided for projects in the 2007 Annexed Area, including infrastructure improvements, parks and related amenities, non-vehicular multi-modal transportation systems, cultural and public facilities and affordable housing. A Third Amendment to the Original Plan was approved by the City on April 8, 2009 by City Ordinance No. 2009-299. The Third Amendment provided for projects in the 2008 Annexed Area, including underground utility improvements, street lighting, landscaping, sidewalks and utility impact fees, and in the 2009 Annexed Area (sidewalk/trail easements at Studemont Street and Memorial Drive). A Fourth Amendment to the Original Plan was approved by the City on December 8, 2010 by City Ordinance No. 2010-997. The Fourth Amendment incorporated the extension of the Zone for an additional 13 years into the project planning process and expanded the projects. A Fifth Amendment to the Original Plan was approved by the City on October 26, 2011 by City Ordinance No. 2011-908. The Fifth Amendment revised the Original Plan to take into account the removal of 253 acres of public property from the Zone and incorporated an additional \$60,000,000 for Project Costs into the Zone. A new category of project was added to the plan for the design and construction of flood remediation infrastructure improvements. A Sixth Amendment to the Original Plan was approved by the City on November 4, 2015 by City Ordinance No. 2015-1048. The Sixth Amendment added projects for the 2015 Annexed Area. It emphasized roadway and street reconstruction projects, storm water management, repair and replacement of drainage systems, design and construction of new storm water utility systems, detention basins and other improvements to reduce volumes of runoff from drainage areas.

The Original Plan and the first six amendments to the Original Plan are referred to herein generally as the “*Prior Plans*.”

## **Current Project and Financing Plan**

The Seventh Amendment to the Original Plan, which is the currently existing Project and Financing Plan, was adopted by the City on December 19, 2018 by City Ordinance No. 2018-1022. The Seventh Amendment provides for the extension of the duration of the Zone to finance the design and construction of roadway and mobility improvements along Shepherd Drive and Durham Drive between Interstate 610 and Interstate 10, storm water and flood remediation infrastructure projects, multi-modal connectivity, and community enhancement infrastructure improvements. The Seventh Amendment recaps the Prior Plans and sets forth the development goals for the Zone.

The total costs of the projects in the Project and Financing Plan are stated as \$508,506,740.

The goals of the Zone were stated as follows:

**Goal 1: Infrastructure Improvements.** Public streets and public utility systems are required to create an environment that will stimulate private investment in retail, residential and multifamily developments. Reconstruction (major and minor) of key streets and utility systems will be undertaken to enhance the level of service to the area, improve functionality, replace aged facilities, and increase aesthetics. All roadway improvements will be integrated with street reconstruction projects of the City and others, as needed, and where possible, include elements not included in those programs.

**Goal 2: Parks and Related Amenities.** The creation of pedestrian-friendly safe environments, public open space, and access and egress improvements including land acquisition, dedication of public easements, parking, and the construction of enhancements with an emphasis on the watershed of the Lower White Oak Bayou, are important components of the Project and Financing Plan. All improvements will be integrated with adjacent land uses and provide upgrades focused on connectivity, pedestrian safety and the visual environment.

**Goal 3: Non-Vehicular/Multi-Modal Transportation Systems.** The third goal is development of on-road and off-road hike and bikeways and trails including sidewalks, pedestrian bridges, lighting, street trees, landscaping, wayfinding signage, benches, street furniture, public art and other pedestrian amenities. Improvements include establishment of both on-street and off-street hike and bike lanes where adequate right-of-way/public easements are available, widening of existing sidewalks/roadway bridge decks to accommodate both pedestrians and bicyclists, and modification of lane design within existing pavement. The Project and Financing Plan contributes to this goal through the reconstruction of key streets that will include sidewalks and other pedestrian amenities.

**Goal 4: Cultural and Public Facilities.** Efforts to enhance the quality of life of area residents through the rehabilitation of cultural and public facilities are anticipated in the Project and Financing Plan. Repositioning of historic cemeteries is a component of this category.

**Goal 5: Drainage and Detention Facilities.** The construction of flood mitigation utility systems, primarily located on the White Oak and Little White Oak Bayous and watersheds continues as a primary goal of the Project and Financing Plan. Also included are the design and construction of new storm water systems, detention basins, and channel and environmental/ecological restoration projects and reclamation.

## **Economic Development Program**

The Zone Board may, with the approval of the City Council, establish an economic development program. An economic development program can include making grants from the Tax Increment Fund for public infrastructure improvements and parking facilities to cause the establishment of public or private facilities that demonstrate public benefits and enhance the economic development of the zone through increased business, commerce and tourism. To date, the Zone Board has not sought to develop or obtain approval of an economic development program.

## **Land Use Regulations**

The TIF Act permits the Zone Board to adopt land use regulations pursuant to the Project and Financing Plan. Before adoption, the regulations must be approved by the Zone Board and the City Council. No land use regulations currently exist.

## **Projects**

The Authority has developed a five year capital improvements program for the years 2021 through 2025 in the total aggregate amount of \$136,488,188, which it plans to fund with proceeds of Contract Revenue Bonds, grants and funds from the City. The following projects are included in the Authority's five-year capital improvements program. Completion of the projects is subject to the availability of funds, market conditions and other considerations which may necessitate changes to the program.

**Shepherd Durham and Selected Cross Street Reconstruction Project.** This project entails roadway reconstruction between 6<sup>th</sup> Street and Interstate 610 North, including hike and bike lanes, storm water drainage systems, curbs and gutters, streetlights, sidewalks and landscaping. This project will be constructed in phases: Phase I from Interstate 610 to West 15<sup>th</sup> Street and Phase II from West 15<sup>th</sup> Street to Interstate 10. The estimated cost of the project for Fiscal Years 2020-2025 is \$116,720,000, of which \$65,000,000 is expected to be from federal grants, \$9,000,000 is expected to be contributed by the City, and \$42,720,000 is expected to come from proceeds of the Contract Revenue Bonds and other funds of the Authority. The Authority has received approval of a \$25,000,000 grant from the U.S. Federal Highway Administration, subject to completion of final design plans and contract documentation. The Authority has also received approval of a \$40,000,000 grant of federal Transportation Improvement Project funds, subject to completion of final design plans and contract documentation. The grant will be awarded to the City by the regional Transportation Policy Council, which awards federal funds to local entities.

This grant will be administered by the City, and the City and the Authority are negotiating an agreement setting forth their respective responsibilities with respect to the grant and the project. Public hearings on the project have been concluded and the Authority's consultants are finalizing the environmental assessment and working on the design of the project. Construction of the first phase of the project is expected to begin in the third quarter of 2021. The Authority will be the party entering into the construction contract.

**North Canal.** The Authority is contributing \$25,000,000 to an estimated \$133,000,000 project to improve the White Oak Bayou channel along downtown, add an overflow channel, and improve the bridges at Yale Street and Heights Boulevard to provide additional water conveyance capacity. Other participants in the project include Federal Emergency Management Agency, U.S. Army Corps of Engineers, Texas Department of Transportation, Harris County Flood Control District and the City. The Authority will coordinate with the other participants in all phases of the project which affect the Zone.

**Yale and Center Intersection.** The Authority will reconstruct the intersection, replace the signal and improve the pedestrian crossing due to the number of vehicle crashes at this intersection. The estimated cost of this project is \$1,050,000.

**Pedestrian and Bicycle Safety.** The Authority plans to make improvements at the intersection of Heights Boulevard and the MKT Trail and at the intersection of Washington Avenue and Heights Boulevard. It will also improve safety and wayfinding along the MKT Trail. The estimated cost of this project is \$1,333,551.

**Other Projects.** Other projects in the Capital Improvement Plan include improvements to the Houston Avenue and White Oak intersection, Little Thicket Park improvements, restriping lanes on West Dallas to include bicycle lanes, construction of a trail segment between White Oak Bayou Trail and Memorial Park, and improvement of small gaps in the pedestrian infrastructure..

## **TAXING PROCEDURES OF THE CITY**

### **Authority to Levy Taxes**

Under Texas law the City is authorized to levy an annual ad valorem tax on all taxable property within its boundaries.

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

The Property Tax Code specifies the taxing procedures of all political subdivisions of the State of Texas, including the City. Provisions of the Property Tax Code 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 responsibility for reviewing and equalizing the values established by the appraisal district. The Appraisal District has the responsibility for appraising property for all taxing units with property within Harris County, including the City. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The Property Tax Code requires each appraisal district to comply with the Uniform Standards of Professional Appraisal Practice.

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

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 political subdivision are subject to taxation by the City. However, the tax revenue generated by the City on any personal property is not included in the Tax Increments. 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; and most individually owned automobiles.

*Historic Tax Exemptions:* The City may exempt from taxation part or all of the assessed value of a structure or archeological site and the land necessary for access to and use of the structure or site, if the structure or site is designated as a recorded Texas Historic Landmark or a state archeological landmark by the Texas Historical Commission or is designated as a historically or archeologically significant site in need of tax relief to encourage its preservation.

*Exemptions for Community Housing Development Organizations:* The Property Tax Code provides that a Community Housing Development Organization (a "CHDO") is entitled to an exemption from taxation of improved or unimproved real property under certain circumstances. A CHDO which applies for an exemption on or after January 1, 2004, is entitled to exemption from taxation of 50 per cent of the appraised value of improved or unimproved real property it owns if it has, for at least the three preceding years, (i) been exempt from federal taxation under Section 501(c)(3) of the Code, (ii) met certain requirements for a charitable organization as delineated in the Texas Tax Code; and (iii) had as one or more of its purposes to provide low-income housing. In addition, for property to be exempt, the CHDO must own the property for the purpose of constructing or rehabilitating a housing project and renting or selling the property to an individual or family who is below a specified income level, to be adjusted annually by cost of living.

*Veteran/First Responder Exemptions:* The City must grant certain exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% and the surviving spouse of such a veteran is entitled to an exemption for the full amount of the veteran's or surviving spouse's residential homestead. A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residential homestead in an amount equal to the partially disabled veteran's disability rating if the residential homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces or a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse's residential homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to subsequent homesteads.

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

*Additional Homestead Exemptions:* The City may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the City Council of the City. Qualifying surviving spouses of persons aged 65 years or older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. The City may be required to offer such an exemption if a majority of voters approve it at an election. The City 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 City is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair its obligation to pay tax-supported debt incurred prior to adoption of the exemption.

*Tax Freeze:* Under Article VIII of the Texas Constitution and state law, the governing body of the City may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the City, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferrable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established, the tax rate limitation may not be repealed or rescinded.

Exemptions as Applied to the City: For the 2020 tax year, the City has a 20% local option homestead exemption with a \$5,000 minimum and an exemption for persons 65 years of age or older and disabled persons of \$160,000. A person who is both 65 years of age or older and disabled may not claim both exemptions but instead may choose which exemption he or she wishes to have applied to his or her property.

Abatements: The City is authorized to enter into a tax abatement agreement with an owner of real or personal property in the Zone, if the Zone Board approves the agreement and the City Council of the City approves the agreement. A tax abatement agreement may exempt from ad valorem taxation by the City for a period of up to ten years, all or any part of the 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.

### **Valuation of Property for Taxation**

Generally, property must be appraised at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the applicable appraisal review board, it is used by each taxing unit in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are generally to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

In determining the market value of property, an appraisal district is required to consider the cost method of appraisal, the income method of appraisal, and the market data comparison method of appraisal, and use the method the chief appraiser of the appraisal district considers most appropriate.

If the cost method of appraisal is used to determine the market value of the property, the appraisal district is required to (i) use cost data from generally accepted sources; (ii) make appropriate adjustments for physical, functional, or economic obsolescence; (iii) make available on request cost data developed and used by the appraisal district as applied to all properties within a property category; (iv) clearly state the reason for any variation between generally accepted cost data and locally produced cost data if the data vary by more than 10 percent; and (v) make available to the property owner on request all applicable market data that demonstrate the difference between the replacement cost of the improvements to the property and the depreciated value of the improvements. If the appraisal district uses the income method of appraisal to determine the market value of real property, the appraisal district is required to: (i) use rental income and expense data pertaining to the property if possible and applicable; (ii) make any projections of future rental income and expenses only from clear and appropriate evidence; (iii) use data from generally accepted sources in determining an appropriate capitalization rate; and (iv) determine a capitalization rate for income-producing property that includes a reasonable return on investment, taking into account the risk associated with the investment. If the appraisal district uses the market data comparison method of appraisal to determine the market value of real property, the appraisal district is required to use comparable sales data if possible and adjust the comparable sales to the subject property.

Eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space 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.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property, or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the appraisal district at least once every three (3) years.

## **Reappraisal of Property after Disaster**

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. This temporary exemption is automatic if the disaster is declared prior to a taxing unit adopting its tax rate for the tax year. A taxing unit 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.

The Attorney General of Texas issued Opinion KP-0299 on April 13, 2020, confirming that purely economic, non-physical damage to property is not eligible for temporary tax exemptions.

## **Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units may appeal the orders of the Appraisal Review Board by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by taxing units and requires certain tax rate increases to be approved by the voters. See “–State Law Limitations on Setting the Annual Tax Rate” herein. The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraised roll.

## **State Law Limitations on Setting the Annual Tax Rate**

Article XI, Section 5 of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation.

The Property Tax Code further limits the City’s ad valorem tax rate, which consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under the Property Tax Code, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

Effective January 1, 2020, the “voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy from the current year’s values multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate.” The “no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy from the current year’s total taxable values. The “unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the three prior tax years, which may be applied to a city’s tax rate in the succeeding tax year without impacting the “voter-approval tax rate.”

The City must annually calculate its “voter-approval tax rate” and “no-new revenue tax rate” in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the City and the county tax assessor-collector for each county in which all or part of the City is located. The City must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the “voter-approval tax rate” must be adopted not later than the 71st day before the next occurring November uniform election date. If the City fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the “no-new-revenue tax rate” for the current tax year or the tax rate adopted by the City for the preceding tax year.

As described below, the Property Tax Code provides that if the City adopts a tax rate that exceeds its “voter-approval tax rate” or, in certain cases, its “de minimis rate,” an election must be held to determine whether or not to reduce the adopted tax rate to the “voter-approval tax rate.” The “de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax rate levy from the current year’s values, plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

The City may not adopt a tax rate that exceeds the lower of the “voter-approval tax rate” or the “no-new-revenue tax rate” until each appraisal district in which the City participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the City has held a public hearing on the proposed tax increase. Generally, if the adopted tax rate for any tax year exceed the “voter-approval tax rate,” cities with a population of 30,000 or more as of the most recent federal decennial census must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the “voter-approval tax rate.”

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the “no-new-revenue tax rate” and “voter-approval tax rate” must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year. The City has not held such a local option election.

### **City Charter Limitations**

*General:* In addition to the statutory limits described above, the City may limit, increase or change the revenue resources available during a given fiscal year, either by voter authorization as provided by the City Charter or by amending the City Charter itself. The City Charter may not be amended more frequently than once every two years. Since 2004, voters of the City have limited increases in ad valorem tax revenues and other revenues in Proposition 1 (codified in Article III, Sec. 1 and Article IX, Sec. 20 of the City Charter) and Proposition 2 (codified in Article VI-a, Sec. 7 of the City Charter but not effective). Voters also have increased available revenue sources in Proposition G (codified in Article IX, Sec. 21 of the City Charter) and Proposition H, which did not amend the City Charter.

*Proposition 1 and Proposition 2 (2004):* In 2004, voters approved Proposition 1 (now codified as Article III, Sec. 1 and Article IX, Sec. 20 of the City Charter) in order to limit increases in (i) the City’s ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding fiscal year, plus 4.5%, or a formula that is based upon the actual revenues received in fiscal year 2005 adjusted for the cumulative combined rates of inflation and the City’s population growth; and (ii) water and sewer rates (i.e., the City’s Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters. At the same election, the voters also approved Proposition 2 (Article VI-a, Sec. 7, City Charter, but not effective), which purported to limit

increases in the City's "combined revenues," including revenues of the General Fund, Special Funds and Enterprise Funds. Based on the specific language of Proposition 1 and Proposition 2, the number of votes for each proposition, and the language of the City Charter, the City declared that Proposition 2 was not effective.

*Proposition 2 Litigation:* Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. After protracted litigation, on August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court (for lack of ripeness) without reference to the merits and dismissed the case for want of jurisdiction. In April 2014, the suit was refiled. On October 4, 2019, the trial court held a bench trial on the remaining issues. On October 29, 2019, the trial court held for the City Defendants, ordering that the plaintiffs take nothing. The parties cross appealed and the case is currently being briefed.

*Impact of Propositions G and H on Propositions 1 and 2:* In response to Proposition 1 and Proposition 2, the City held an election on November 7, 2006, at which the voters approved Proposition G and Proposition H, both of which are currently effective. Proposition G amends City Charter to exclude revenues of the City's enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect. Proposition H allows the City to collect and spend up to \$90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. Propositions G and H are incorporated into the City's financial policies, and the City has collected revenues and made expenditures for public safety purposes in compliance with Proposition H.

See "INVESTMENT CONSIDERATIONS—Tax and Collection Rates May Decline" and "—Risk of Higher Priority Debt."

## **Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. The City'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 residential homestead, 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 equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is a person 65 years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

## **The City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each taxing unit having power to tax the property. The City's tax lien is on a parity with tax liens of other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of another taxing entity is determined by applicable federal law.

At any time after taxes on property become delinquent, a taxing unit may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the limitations with respect to residential homesteads described in the preceding section. In filing a suit to foreclose a tax lien on real property, the taxing unit 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 and by bankruptcy proceedings that may restrict collection of taxpayer debts. A taxpayer has the right to redeem a mineral



estate or property that was used at the time the suit was filed for residential homestead or agricultural purposes within two years after the purchaser's deed issued at the foreclosure sale is filed in the county's real property records. A taxpayer has the right to redeem property that was used for all other purposes within six months after the purchaser's deed is filed in the county records. See "INVESTMENT CONSIDERATIONS—Limitations on Tax Collections and Foreclosure Remedies."

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

Certain qualified taxpayers, including owners of residential homesteads, located within a disaster area which have 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 City 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.

### **Effect of FIRREA on Tax Collections**

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.

These provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the Zone and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## **LEGAL MATTERS**

### **Legal Proceedings**

Delivery of the Bonds will be subject to and accompanied by (i) the unqualified approving legal opinion of the Attorney General of Texas to the effect that, based upon his examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the Bonds are valid and legally binding obligations of the Authority under the Constitution and laws of the State of Texas payable from the Pledged Revenues, and (ii) the unqualified approving legal opinion of Bond Counsel to like effect and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and interest on the Bonds will not be subject to the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

In its capacity as Bond Counsel, Sanford Kuhl Hagan Kugle Parker Kahn LLP has reviewed the information appearing in this Official Statement under the captions "SOURCE OF AND SECURITY FOR PAYMENT" (exclusive of the subcaption "Calculation of Tax Increments"), "THE BONDS" (exclusive of the subcaption "Book-Entry-Only System"), "THE INDENTURE OF TRUST," "MEMORIAL-HEIGHTS REDEVELOPMENT PLAN—The Zone," and "—The Authority," "LEGAL MATTERS—Legal Proceedings," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (to the extent such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the legal matters and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. 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.

Bond Counsel also serves as general counsel to the Authority on matters other than the issuance of bonds.

The legal fees paid to Bond Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

### **No-Litigation Certificate**

The Authority will furnish the Underwriters a certificate dated as of the Delivery Date of the Bonds, to the effect that there is not pending, and to the knowledge of the officers executing the certificate, there is not threatened, any litigation 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 Zone, or the title of the officers thereof to their respective offices, and that no Additional Parity Bonds or other indebtedness have been issued since the date of the statement of indebtedness, or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

### **TAX MATTERS**

The delivery of Bonds is subject to an opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the Authority with the provisions of the Bond Order subsequent to the issuance of the Bonds pursuant to Section 103 of the Code, and existing regulations, published rulings and court decision procedures, interest on the bonds (i) will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes and (ii) is not a specific preference item for purposes of federal alternative minimum tax. The statutes, regulations, published rulings, and court decisions on which such opinion is based are subject to change.

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 Authority 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 excludable 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.

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 Authority or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority 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 Authority 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 Authority 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 Authority 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 Authority or the Beneficial Owners to incur significant expense.

### **Potential Tax Legislation**

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

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

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption “TAX MATTERS” generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

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

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

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

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

Some of the Bonds were offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, broker, and similar persons or entities acting in the capacity of wholesales or underwriters) at such initial offering price, each of the Bonds of such maturity (the "Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

## **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 Appendix D 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*

AGM and MAC have received approval to merge MAC into AGM, with AGM as the surviving company. The merger is expected to be effective on April 1, 2021. MAC is currently an indirect subsidiary of AGM. AGM's affiliate, Assured Guaranty Corp., a Maryland- domiciled insurance company ("AGC"), indirectly owns 39.3% of MAC. In connection with the merger transaction, AGM and AGC will each reassume the remaining outstanding par they ceded to MAC in 2013, and AGC will sell its share of MAC to AGM. AGM will then cause MAC to merge with and into AGM. Once the merger is completed, all of MAC's direct insured par exposure will become insured obligations of AGM.

### *Incorporation of Certain Documents by Reference*

Portions of the following document 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”.

## **MUNICIPAL BOND RATINGS**

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by the Bond Insurer. S&P has assigned an underlying rating of “A-” to the Bonds with a stable outlook. The ratings reflect only the views of such rating agency, and an explanation of the significance of any rating may be obtained only from the rating agency furnishing such ratings. There is no assurance that any such ratings will be maintained for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by such rating agency, if in its sole judgment, circumstances so warrant. Any downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **CONTINUING DISCLOSURE OF INFORMATION**

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

## Annual Reports

The Authority will provide certain updated financial information and operating data annually to the MSRB through its EMMA system. The information to be updated includes all quantitative financial information and operating data with respect to the Authority of the general type included in this Official Statement in: **Schedules 1-6 (top ten taxpayers for current year only)** and **APPENDIX B: FINANCIAL STATEMENTS OF THE AUTHORITY**. The Authority will update and provide this information within six months after the end of each of its fiscal year ending in or after 2021. The Authority may provide updated information in full text or may incorporate by reference certain other documents on the EMMA System, as permitted by Rule 15c2-12 (“*Rule*”) of the United States Securities and Exchange Commission (“*SEC*”).

The updated information will include audited financial statements, if the Authority commissions an audit and is completed by the required time. If audited financial statements are not available by the required time, the Authority will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Authority may be required to employ from time to time pursuant to state law or regulation.

The Authority’s fiscal year end is currently June 30. Accordingly, it must provide updated information by December 31 in each year, beginning in 2021, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify the MSRB of the change.

## Specified Event Notices

The Authority 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 Authority will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Authority within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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 Authority if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Authority 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 Authority any of which reflect financial difficulties. The term “financial obligation” in the immediately preceding paragraphs (15) and (16) means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for liquidity enhancement. In addition, the Authority will provide timely notice of any failure by the Authority to provide information, data, or financial statements in accordance with its agreement described above under “–Annual Reports.”

## **Availability of Information from MSRB**

The Authority 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](http://www.emma.msrb.org).

## **Limitations and Amendments**

The Authority has agreed to update information and to provide notices of events only as described above. The Authority 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 Authority 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 Authority 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 Authority to comply with its agreement.

The Authority 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 Authority, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the 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 outstanding Bonds consent to the amendment or any person unaffiliated with the Authority (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 Authority 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 an underwriter from lawfully purchasing the Bonds in the initial offering. If the Authority so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

## **Compliance with Prior Undertakings**

The Authority has not previously entered into a continuing disclosure agreement in accordance with the Rule.

## **PREPARATION OF OFFICIAL STATEMENT**

### **Sources and Compilation of Information**

The financial data and other information contained in this Official Statement has been obtained primarily from the records of the City, the Appraisal District, the Authority, and other sources. All of these sources are believed to be reliable, but no guarantee is made by the Authority as to the accuracy or completeness of the information derived from sources other than the Authority, and the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the Authority. Inclusion of such information herein is not to be construed as a representation on the part of the Authority, except that the Authority has represented to the Underwriters that it has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.



## **Financial Advisor**

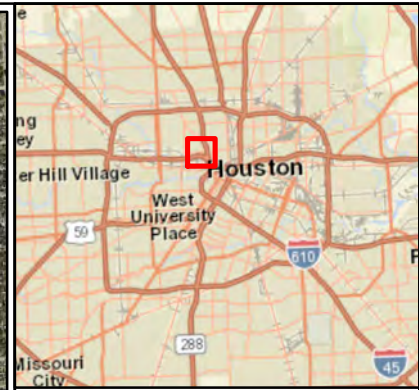
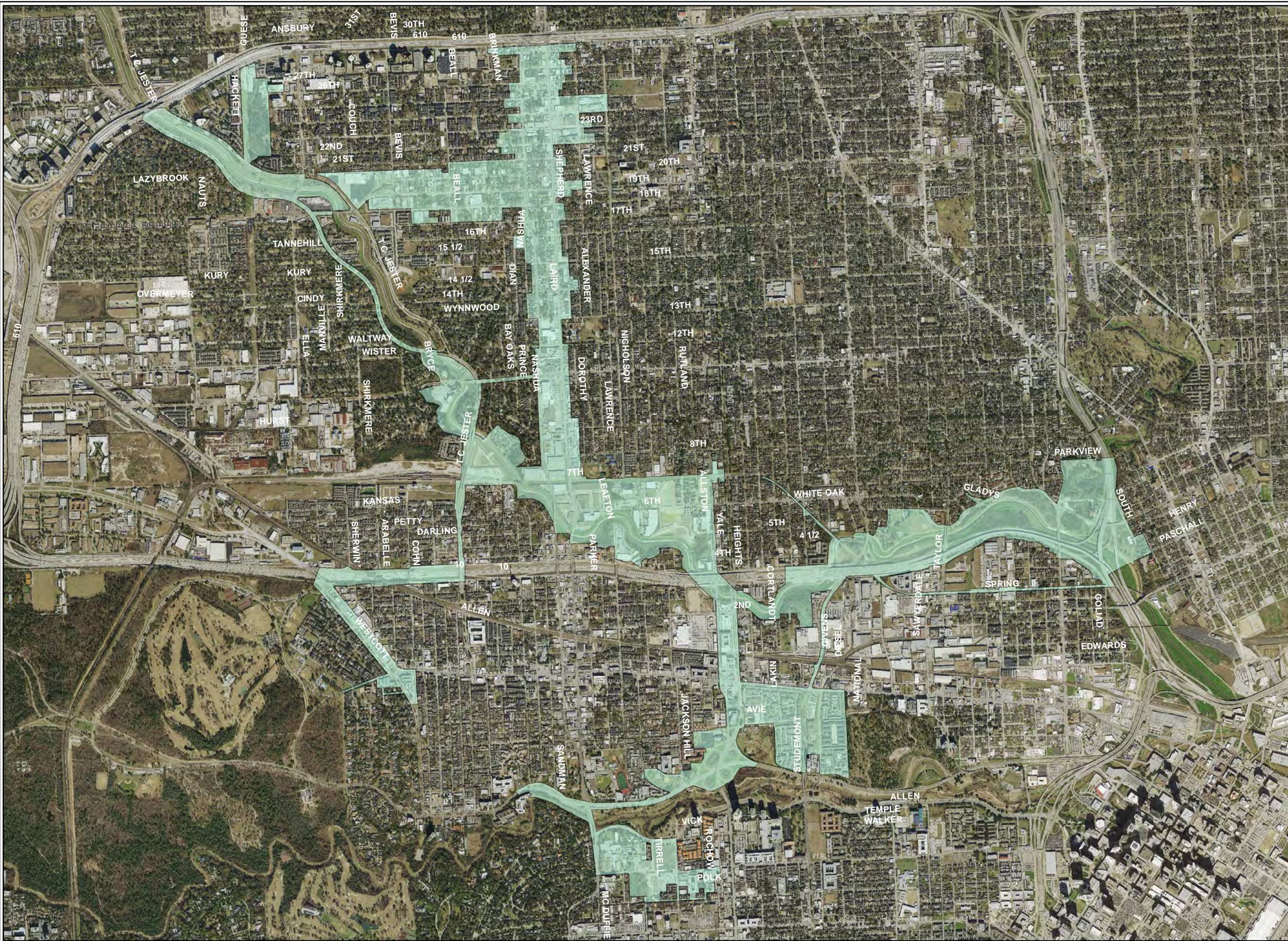
Masterson Advisors LLC is employed as Financial Advisor to the Authority to render certain professional services, including advising the Authority on a plan of financing and the Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

## **MISCELLANEOUS**

All estimates, statements and assumptions in this Official Statement and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Official Statement has been approved by the Board of Directors of Memorial-Heights Redevelopment Authority.

**APPENDIX A**  
**BOUNDARY MAP**



**VICINITY MAP**

Scale: 1 inch equals 10 miles

**Legend**

- Memorial-Heights Redevelopment Authority

**MEMORIAL HEIGHTS REDEVELOPMENT AUTHORITY (TIRZ No. 5)**



**1 inch equals 2,200 feet**

Disclaimer: This product is offered for informational purposes and may not have been prepared for or be suitable for legal, engineering, or surveying purposes. It does not represent an on-the-ground survey and represents only the approximate relative location of property, governmental and/or political boundaries or related facilities to said boundary. No express warranties are made by Jones & Carter, Inc. concerning the accuracy, completeness, reliability, or usability of the information included within this exhibit.



**APPENDIX B**  
**FINANCIAL STATEMENTS OF THE AUTHORITY**

**MEMORIAL-HEIGHTS  
REDEVELOPMENT AUTHORITY**

**Annual Financial Statements  
and  
Supplementary Information**

**June 30, 2020  
(With Independent Auditor's Report Thereon)**



**MEMORIAL-HEIGHTS  
REDEVELOPMENT AUTHORITY**

**Annual Financial Statements  
and  
Supplementary Information**

**June 30, 2020  
(With Independent Auditor's Report Thereon)**





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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Memorial-Heights Redevelopment Authority  
City of Houston, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of Memorial-Heights Redevelopment Authority (the "Authority"), **a component unit of the City of Houston, Texas**, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

September 24, 2020



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

The discussion and analysis of Memorial-Heights Redevelopment Authority's (Authority or MHRA) financial statements provide an overview of the Authority's financial performance during the years ended June 30, 2020, and 2019. This discussion and analysis includes comparative data for the year ended June 30, 2020, with the year ended June 30, 2019, with a brief explanation for significant changes between fiscal years. Since the Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the Authority's financial statements and footnotes.

**HIGHLIGHTS**

- Since its creation in 1996, Reinvestment Zone Number Five, City of Houston (Zone) has seen an increase in taxable value. As of tax year 2019, the projected taxable value was approximately \$2,280,167,151. This increase in value over the base year value of \$1,267,295,472 was due to multiple factors including annexation of territory into the boundaries of the Zone and subsequent development of multi-family development and commercial projects in the Zone.
- The Authority recorded its annual Municipal Services Payment to the City of Houston in the amount of \$160,652.
- During Fiscal Years 2018, 2019 and 2020, MHRA continued work on the Shepherd/Durham Streets Reconstruction Project and has successfully obtained grant funding.
- During Fiscal Year 2020, MHRA completed the construction for bank stabilization of the bayou at Little Thicket Park. The City Parks Department and MHRA are participating as equal financial partners for this project and MHRA was responsible for the design and construction.
- During Fiscal Year 2020, MHRA completed construction of the Houston Avenue and White Oak Drive Intersection project.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Under Governmental Accounting Standards Board (GASB) Statement No. 34, the Authority qualifies as a special purpose government with one program – redevelopment of the Memorial-Heights Area, an area in central Houston consisting of commercial and recreational corridors within an area generally bounded by IH-610 to the North and West, IH-45 to the East, and West Clay Street to the South (the “Memorial-Heights Area”). GASB Statement No. 34 allows such entities to combine the fund financial statements and the government-wide financial statements rather than presenting separate statements.

Government-wide statements report information about the Authority as a whole using accounting methods similar to those used in private-sector companies. The Statement of Net Position includes all of the Authority’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The fund financial statements report information about the Authority on the modified accrual basis, which only accounts for revenues that are measurable and available within the current period or soon enough thereafter to pay liabilities of the current period. Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for reconciling items in the “Adjustments” column are provided on the face of the statements.

**STATEMENT OF NET POSITION**

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. The Authority’s cash deposits are collateralized by pledged securities. For a more detailed analysis of assets and liabilities, see the notes to the financial statements. The following table reflects condensed information (rounded to the nearest thousand) on the Authority’s net position at June 30:

	Summary of Changes in the Statement of Net Position		
	2020	2019	Change Positive (Negative)
<b>ASSETS:</b>			
Cash and Investments	\$ 12,352,000	\$ 8,832,000	\$ 3,520,000
Tax Increments Receivable	4,493,000	3,458,000	1,035,000
<b>TOTAL ASSETS</b>	<b>\$ 16,845,000</b>	<b>\$ 12,290,000</b>	<b>\$ 4,555,000</b>
<b>LIABILITIES:</b>			
Due to Developer	\$ 2,350,000	\$ 2,613,000	\$ 263,000
Other Liabilities	724,000	655,000	(69,000)
<b>TOTAL LIABILITIES</b>	<b>\$ 3,074,000</b>	<b>\$ 3,268,000</b>	<b>\$ 194,000</b>
<b>TOTAL NET POSITION</b>	<b>\$ 13,771,000</b>	<b>\$ 9,022,000</b>	<b>\$ 4,749,000</b>

\*

\*As Adjusted See Note 7



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**STATEMENT OF ACTIVITIES**

The Statement of Activities presents the operating results of the Authority. The following table reflects condensed information on the Authority's operations for the years ended June 30:

	Summary of Changes in the Statement of Activities		
	2020	2019	Change Positive (Negative)
<b>REVENUES:</b>			
Tax Increment Revenue	\$ 6,606,000	\$ 5,615,000	\$ 991,000
Interest Revenue	172,000	170,000	2,000
<b>TOTAL REVENUES</b>	<b>\$ 7,208,000</b>	<b>\$ 5,785,000</b>	<b>\$ 1,423,000</b>
<b>EXPENSES:</b>			
Project Cost	\$ 1,845,000	\$ 1,688,000	\$ (157,000)
Other Costs	398,000	442,000	44,000
Support Services	216,000	277,000	61,000
<b>TOTAL EXPENSES</b>	<b>\$ 2,459,000</b>	<b>\$ 2,407,000</b>	<b>\$ (52,000)</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 4,749,000</b>	<b>\$ 3,378,000</b>	<b>\$ 1,371,000</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>9,022,000</b>	<b>5,644,000</b>	<b>3,378,000</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 13,771,000</b>	<b>\$ 9,022,000</b>	<b>\$ 4,749,000</b>

\*

\*As Adjusted See Note 7

**Tax Increments**

The City has agreed, subject to certain limitations, to deposit to the Tax Increment Fund established for the Authority, a certain percentage of tax collections arising from their taxation of the increase, if any, in the appraised value of real property located in the Zone since a designated base year. The City remits its tax increments on an annual basis.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020**

**Capital Assets**

The Authority had no capital assets as of June 30, 2020. Under the Development Agreements, the Authority oversees the construction of certain public improvements in the Memorial-Heights Areas. Upon completion and inspection by the Authority's consultants and the City's inspectors, the public improvements are automatically conveyed to the City. Thus, although it may have obligations to reimburse construction participants, including developers, for the public improvements, the Authority never holds title to any public improvements.

**Debt**

As of June 30, 2020, the Authority had no bond debt. As of June 30, 2020, the Authority owed developers \$2,349,965.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Authority's overall final budget for 2020 was in excess of \$21.1 million dollars.

Actual tax increments and other income received were less than budgeted. Total expenditures were less than budgeted. See the budget to actual comparison on page 19.

**CURRENT AND FUTURE PROJECTS**

The Authority is undertaking or considering the following projects in the Memorial Heights Area, including:

- Shepherd/Durham Streets Reconstruction Project
- Little Thicket Park Bank Stabilization Project
- Bicycle and pedestrian facility improvement to improve safety at the intersection of Washington/Center and Heights and at various intersections along the MKT trail
- Selected streets between Shepherd and Durham
- Yale and Center Street Intersection Signalization Improvements
- Participating with the City of Houston, TxDOT, and the Harris County Flood Control District to develop and construct the North Canal Flood Control Project
- Restriping of West Dallas between Dunlavy and Waugh to add bicycle facilities.

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This financial report is designed to provide a general overview of the Memorial-Heights Redevelopment Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to John Kuhl, Attorney, SKLaw, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**JUNE 30, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Cash	\$ 475,606	\$	\$ 475,606
Investments	11,876,601		11,876,601
Tax Increment Receivable	<u>4,492,925</u>	<u>                    </u>	<u>4,492,925</u>
<b>TOTAL ASSETS</b>	<u>\$ 16,845,132</u>	<u>\$</u>	<u>\$ 16,845,132</u>
 <b>LIABILITIES</b>			
Accounts Payable	\$ 723,620	\$	\$ 723,620
Due to Developer	<u>                    </u>	<u>2,349,965</u>	<u>2,349,965</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 723,620</u>	<u>\$ 2,349,965</u>	<u>\$ 3,073,585</u>
 <b>FUND BALANCE</b>			
Assigned to 2021 Budget Deficit	\$ 11,322,961	\$ (11,322,961)	\$
Unassigned	<u>4,798,551</u>	<u>(4,798,551)</u>	<u>                    </u>
<b>TOTAL FUND BALANCE</b>	<u>\$ 16,121,512</u>	<u>\$ (16,121,512)</u>	<u>\$ - 0 -</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <u>\$ 16,845,132</u>		
 <b>NET POSITION</b>			
Unrestricted		<u>\$ 13,771,547</u>	<u>\$ 13,771,547</u>

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

Total Fund Balance - Governmental Fund \$ 16,121,512

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

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

Due to Developer (2,349,965)

Total Net Position - Governmental Activities \$ 13,771,547

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>REVENUES:</b>			
Tax Increment Revenue	\$ 6,605,739	\$	\$ 6,605,739
Grant and Miscellaneous Revenues	430,000		430,000
Investment Revenues	<u>171,814</u>		<u>171,814</u>
<b>TOTAL REVENUES</b>	<u>\$ 7,207,553</u>	<u>\$ - 0 -</u>	<u>\$ 7,207,553</u>
<b>EXPENDITURES/EXPENSES:</b>			
Service Operations:			
Municipal Services	\$ 160,652	\$	\$ 160,652
Administrative Fees-Transfer	236,470		236,470
Project Cost	1,845,002		1,845,002
Administrative Consultant	92,888		92,888
Accounting and Legal Fees	60,003		60,003
Developer Reimbursement	262,565	(262,565)	
Other Consultants	62,200		62,200
Other Cost	<u>965</u>		<u>965</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 2,720,745</u>	<u>\$ (262,565)</u>	<u>\$ 2,458,180</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 4,486,808	\$ (4,486,808)	\$
<b>CHANGE IN NET POSITION</b>		4,749,373	4,749,373
<b>FUND BALANCE/NET POSITION -</b>			
<b>JULY 1, 2019, as adjusted</b>	<u>11,634,704</u>	<u>(2,612,530)</u>	<u>9,022,174</u>
<b>FUND BALANCE/NET POSITION -</b>			
<b>JUNE 30, 2020</b>	<u>\$ 16,121,512</u>	<u>\$ (2,349,965)</u>	<u>\$ 13,771,547</u>

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Net Change in Fund Balance - Governmental Fund \$ 4,486,808

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

Governmental funds report developer reimbursements as expenditures. Developer reimbursements decrease long-term liabilities in the Statement of Net Position. 262,565

Change in Net Position - Governmental Activities \$ 4,749,373

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1. DESCRIPTION OF ORGANIZATION**

**Description of Organization**

Memorial-Heights Redevelopment Authority (the Authority) is a nonprofit local government corporation, incorporated December 11, 1997 under the laws of the State of Texas, and operating under Chapter 431, Texas Transportation Code. On December 10, 1997, the City of Houston (the City) adopted Resolution No. 97-67, which authorized the Authority to aid, assist and act on behalf of the City, in the performance of the City's obligation with respect to Reinvestment Zone Number Five, City of Houston, Texas (Memorial-Heights TIRZ or TIRZ).

**City of Houston Reinvestment Zone Number Five**

Memorial-Heights TIRZ was created pursuant to Chapter 311, Texas Tax Code, by City Ordinance No. 96-1337, effective December 24, 1996, as a tax incremental reinvestment zone. The TIRZ is authorized to provide new capital for public works and public improvements in specified corridors and areas in the Memorial-Heights Area. The TIRZ will provide a source of funding through the tax increments generated by redevelopment of those areas within the Memorial-Heights TIRZ.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements represent all of the funds of Memorial-Heights Redevelopment Authority. The Authority is a component unit of the City of Houston. Component units are legally separate entities for which the primary government is financially accountable. There are no separate legal entities that are a part of the Authority's reporting entity.

**Tax Increments and Participation Agreements**

The City has agreed to deposit to the Tax Increment Fund established for the TIRZ (the Tax Increment Fund) a certain percentage of the tax collections arising from its taxation of the increase, if any, in the appraised value of real property located in the TIRZ since January 1, 1996 (the Tax Increments). The City is required to collect taxes on real property located within the TIRZ in the same manner as other taxes are collected by the City. The City is then required to pay the Tax Increment Fund the Tax Increments, as agreed upon in accordance with the City's agreement with the TIRZ (the Participation Agreement). Thus, Tax Increments are due to be deposited from the Tax Increment Fund to the Authority's account by the end of each quarter in which they are collected in the Tax Increment Fund. The City has agreed to pay 100% of their Tax Increments to the Tax Increment Fund. During the current fiscal year, tax increments of \$6,605,739 were collected by the City of which \$236,470 was withheld to cover administrative costs. See Note 7 for additional information.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Measurement Focus and Basis of Accounting:**

**Government-Wide Financial Statement**

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. The Statement of Net Position and the Statement of Activities were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. Business activities are financed in whole or in part through fees charged for goods or services to the general public and are usually reported in proprietary funds. The Authority does not have any business-type activities.

**Fund Financial Statements**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction that can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers all revenue available if it is collected within 60 days after the year end. Expenditures are recorded when the related fund liability is incurred. The Authority only has one major fund, the General Fund, which accounts for all financial resources.

**Fund Balances**

Fund balances in governmental funds are classified using the following hierarchy:

*Nonspendable* - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The Authority does not have any nonspendable fund balances.

*Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally required. The Authority does not have any restricted fund balances.

*Committed* - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The Authority does not have any committed fund balances.



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Measurement Focus and Basis of Accounting: (Continued)**

**Fund Balances (Continued)**

*Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Authority has not adopted a formal policy regarding the assignment of fund balances. The Authority assigned \$11,322,961 of its General Fund fund balance to offset a fiscal year 2021 budgeted deficit.

*Unassigned* - all other spendable amounts in the General Fund.

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

**Federal Income Taxes**

The Authority is exempt from Federal income taxes as an organization described in Section 501(c) (3) of the Internal Revenue Code. Under Section 6501 (c) (4), the Authority has also requested an advance ruling allowing it to be treated as a publicly supported organization under Section 170 (b) (1) (A) (vi) of the Internal Revenue Code. Furthermore, as an adjunct of local government, the Authority is exempt from Federal income taxes under Section 115 (2) of the Internal Revenue Code and qualifies as a publicly supported organization within the meaning of Section 509 (a) of the Internal Revenue Code.

**Use of Estimates**

The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual result could differ from those estimates.

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Deposits**

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

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At June 30, 2020, none of the Authority's bank balances were exposed to custodial credit risk.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2020, as listed below:

	Cash
GENERAL FUND	\$ 475,606

Investments

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

The Board of Directors has adopted a written investment policy regarding the investments of its funds as defined in the Public Funds Investment Act of 1997 (Chapter 2256, Texas Government Code). Such investment include (1) obligations of the United States or its agencies; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies; (4) certificates of deposit, and (5) commercial paper that complies with the Public Funds Investment Act.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

The Authority invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the Authority also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of June 30, 2020, the Authority had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	<u>\$11,876,601</u>	<u>\$11,876,601</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2020, the Authority's investment in TexPool, an external investment pool, was rated AAAM by Standard & Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

**NOTE 4. DEVELOPER ADVANCES AND INTEREST PAYABLE**

The Authority and Memorial-Heights TIRZ have executed a development agreement with ArchStone Smith to provide funding for all reasonable and necessary expenses for the maintenance, operation and administration of the Authority and Memorial-Heights TIRZ. ArchStone Smith has agreed to extend a loan not to exceed the aggregate principal amount of \$16,706,921. The loan shall bear interest on the unpaid principal amount at the Base Rate (the prime rate of J.P. Morgan Chase Bank) plus 1% per annum until maturity. If applicable, the interest rate shall be adjusted quarterly based on any changes in the Base Rate. Principal and interest shall be repaid from the deposits made by the participating taxing entities to the Tax Increment Fund until the obligation is retired. Providing the availability of funds in the Tax Increment Fund, scheduled payments shall commence on April 1, 1998, with subsequent payments to be made annually each July. Accordingly, \$167,382 and \$49,052 of principal and interest, respectively, was paid during the fiscal year ended June 30, 2009. At the end of the fiscal years 2010 through 2020 the balance due was zero on the loan.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 4. DEVELOPER ADVANCES AND INTEREST PAYABLE (Continued)**

The Authority has also entered into a reimbursement agreement with Legacy Partners Memorial Houston, L.P. (Legacy). In accordance with this agreement, Legacy has agreed to fund various right-of-way improvements on behalf of the Authority. As of June 30, 2009, Legacy has funded \$192,294 in reimbursable costs. This amount was recorded as a liability in the Statement of Net Position for 2009 and paid in 2010. The Authority also accrued and paid an additional \$28,000 in 2010 making the total paid to Legacy Partners in 2010 \$220,294. There were no payments made to Legacy in 2011 through 2020 and no amount due as of June 30, 2020.

In addition, the Authority has also entered into a reimbursement agreement with Regent Square AB LLC, Regent Square CD LLC, and AH Borrower LLC (Regent). In 2012, a partial assignment of the reimbursement agreement was made by Regent to Sovereign Regent Square LLC (Sovereign). In accordance with the reimbursement agreement, Regent and Sovereign have agreed to fund on behalf of the Authority certain design and construction costs for public infrastructure improvements in connection with a mixed-use development. As of June 30, 2020, the Developer has reported expenditures of \$71,676,614, of which \$3,211,252 is reimbursable under the agreement. This amount, less \$598,722 reimbursed in prior fiscal years and \$262,565 reimbursed in the current fiscal year, is recorded as a liability in the Statement of Net Position.

During 2019 MHRA entered into a Development Agreement which will improve the intersections at Allen Parkway and a new public street within the development, at Dallas and the new public street, Shepherd and Allen Parkway, Shepherd and Memorial, West Dallas and Shepherd. Marston Street will be extended to Allen Parkway and a new street will be constructed from Allen Parkway to West Dallas. Streetscapes will be improved on Marston, the new public street, West Dallas, Shepherd, Allen Parkway, Tirell and West Dallas. The work on West Dallas will include separated bike lanes. There were no payments made and no amount due as of June 30, 2020.

**NOTE 5. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority participates in the Texas Municipal League's Intergovernmental Risk Pool ("TML") to provide general liability, errors and omission and automobile liability. The Authority, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 6      UNCERTAINTIES**

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

**NOTE 7.      PRIOR PERIOD ADJUSTMENT**

As stated in Note 2, the City deposits certain tax increments to the Tax Increment Fund. The City of Houston noted that certain parcels are not completely within the TIRZ boundary (“split properties”) and a prorated portion of the tax increment for those split properties should have been made. However, in tax years 2014, 2015, 2016 and 2017, the City remitted to the TIRZ the entire tax increment for the split properties. Although this adjustment for split payments was withheld from the increment paid by the City, we are treating it as a prior period adjustment and showing the full amount of revenue for the current fiscal year.

The financial statement effect of this change resulted in the following:

General Fund-Fund Balance - July 1, 2019	\$ 13,511,048
Effect of Adjustment	<u>(1,876,344)</u>
General Fund-Fund Balance - July 1, 2019, As Adjusted	<u>\$ 11,634,704</u>
Net Position - July 1, 2019	\$ 10,898,518
Effect of Adjustment	<u>(1,876,344)</u>
Net Position - July 1, 2019, As Adjusted	<u>\$ 9,022,174</u>

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 7. PRIOR PERIOD ADJUSTMENT (Continued)**

The allocation of the split properties adjustment to prior years is shown on the table below.

	<b>Before Jur Split</b>	<b>After Jur Split</b>	<b>Prior AH Credit</b>
<b>2019 Increment Jur 583</b>	\$ 2,726,998	\$ 2,726,998	\$
2018 Adjustment	(122,021)	(122,021)	
2017 Adjustment	(40,381)	(525,495)	
2016 Adjustment		(471,268)	157,090
2015 Adjustment		(470,335)	156,778
2014 Adjustment		(432,001)	144,000
<b>Total Increment</b>	<u>2,564,596</u>	<u>705,878</u>	<u>457,868</u>
<b>Total Increment before Admin Fee</b>			1,163,746
<b>2019 Increment Jur 935</b>	\$ 167,447	\$ 167,447	\$
2018 Adjustment	(110)	(110)	
2017 Adjustment	(356)	(230,025)	
2016 Adjustment		(198,274)	66,091
2015 Adjustment		(164,263)	54,754
2014 Adjustment			
<b>Total Increment</b>	<u>166,981</u>	<u>(425,225)</u>	<u>120,845</u>
<b>Total Increment before Admin Fee</b>			(304,380)
<b>2019 Increment Jur 307</b>	\$ 540,242	\$ 540,242	\$
2018 Adjustment			
2017 Adjustment			
2016 Adjustment			
2015 Adjustment			
2014 Adjustment			
<b>Total Increment</b>	<u>540,242</u>	<u>540,242</u>	
<b>Total Increment before Admin Fee</b>			540,242
<b>2019 Increment Jur 309</b>	\$ 2,025	\$ 2,025	\$
2018 Adjustment			
2017 Adjustment			
2016 Adjustment			
2015 Adjustment			
2014 Adjustment			
<b>Total Increment</b>	<u>2,025</u>	<u>2,025</u>	
<b>Total Increment before Admin Fee</b>			2,025
<b>2019 Increment Jur 816</b>	\$ 3,435,435	\$ 3,440,495	\$
2018 Adjustment	(51,322)	(45,954)	
2017 Adjustment	(53,763)	(60,144)	
2016 Adjustment	(8,147)	(9,954)	3,318
2015 Adjustment	9,692		
2014 Adjustment			
<b>Total Increment</b>	<u>3,331,895</u>	<u>3,324,443</u>	<u>3,318</u>
<b>Total Increment before Admin Fee</b>			<u>3,327,761</u>
Total Increment all Jurs	6,605,739		4,729,394
Admin Fee			236,469
Amount received by TIRZ			<u>\$ 4,492,925</u>

JUR - The Jurisdiction Code assigned by Harris County Appraisal District to specific accounts

AH - Affordable Housing

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund		
	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Budgetary Fund Balance - Beginning of Year</b>	\$ 13,760,510	\$ 11,634,704	\$ (2,125,806)
<b>Resources:</b>			
Tax Increments	\$ 6,916,597	\$ 6,605,739	\$ (310,858)
Grant and Miscellaneous Revenues	405,000	430,000	25,000
Investment Revenues	29,210	171,814	142,604
<b>Total Available Resources</b>	<b>\$ 21,111,317</b>	<b>\$ 18,842,257</b>	<b>\$ (2,269,060)</b>
<b>Expenditures:</b>			
Maintenance and Operations	\$ 390,000	\$ 216,056	\$ 173,944
Capital Expenditures and Developer	3,406,907	2,107,567	1,299,340
Transfers	506,482	397,122	109,360
<b>Total Expenditures</b>	<b>\$ 4,303,389</b>	<b>\$ 2,720,745</b>	<b>\$ 1,582,644</b>
<b>Budgetary Fund Balance - End of Year</b>	<b>\$ 16,807,928</b>	<b>\$ 16,121,512</b>	<b>\$ (686,416)</b>
Explanation of Differences between Budgetary Inflow and Outflows and GAAP Revenues and Expenditures			
<b>Sources/Inflows of Resources</b>			
Actual amounts (budgetary basis)			\$ 18,842,257
Differences - Budget to GAAP:			
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes			11,634,704
Total revenue as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund			<b>\$ 7,207,553</b>

See accompanying independent auditor's report.

**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF ESTIMATE OF PROJECT COSTS TO ACTUAL COSTS**  
**PERIOD FROM DECEMBER 11, 1997 (DATE OF INCORPORATION)**  
**THROUGH JUNE 30, 2020**  
**(UNAUDITED)**

Vendor	Estimated Total Costs	Total Expenditures	Variance Positive (Negative)
Public Utility Improvements	\$ 138,144,635	\$ 2,885,228	\$ 135,259,407
Roadway and Sidewalk Improvements	131,738,100	10,953,347	120,784,753
Parks and Park Improvements	88,499,375	10,103,710	78,395,665
Professional Services/TIRZ Administration	11,513,853	6,369,787	5,144,066
Property Assemblage/Clean-up	52,100,000	882,382	51,217,618
Financing Cost	29,879,513	3,428,907	26,450,606
Creation Costs	175,300	175,300	0
School and Educational Facilities	23,123,754	12,705,295	10,418,459
Affordable Housing	<u>33,332,210</u>	<u>7,262,210</u>	<u>26,070,000</u>
<b>Total Reimbursement</b>	<b><u>\$508,506,740</u></b>	<b><u>\$ 54,766,166</u></b>	<b><u>\$453,740,574</u></b>

See accompanying independent auditor's report.



**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF OPERATING EXPENDITURES AND CAPITAL EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Category	Vendor	Budget	Actual Expenditure	Variance Positive (Negative)
<b>ADMINISTRATION AND OVERHEAD</b>				
Administration Support	SKLaw/SMW/Principle	\$ 100,000	\$ 92,888	\$ 7,112
Office Administration		10,000	-	10,000
Insurance	TML Insurance	1,000	965	35
Accounting	The Morton Accounting Services	20,000	19,400	600
Auditor	McCall Gibson Swedlund Barfoot PLLC	9,000	8,100	900
Tax Consultant	Equi-Tax, Inc.	25,000	2,100	22,900
<b>SUBTOTAL</b>		<u>\$ 165,000</u>	<u>\$ 123,453</u>	<u>\$ 41,547</u>
<b>PROGRAM AND PROJECT CONSULTANTS</b>				
Legal-General Matters	SKLaw	\$ 100,000	\$ 40,603	\$ 59,397
Planning Consultants		50,000	2,279	47,721
Project Management Consultants	Jones & Carter, Goodman Co.	75,000	49,721	25,279
<b>SUBTOTAL</b>		<u>\$ 225,000</u>	<u>\$ 92,603</u>	<u>\$ 132,397</u>
<b>TOTAL MANAGEMENT/CONSULTING SERVICES</b>		<u>\$ 390,000</u>	<u>\$ 216,056</u>	<u>\$ 173,944</u>
Regents Square GID	Sovreign Regent Square	<u>\$ 606,907</u>	<u>\$ 262,565</u>	<u>\$ 344,342</u>
Municipal Services	City of Houston	<u>\$ 160,652</u>	<u>\$ 160,652</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

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**MEMORIAL-HEIGHTS REDEVELOPMENT AUTHORITY**  
**SCHEDULE OF OPERATING EXPENDITURES AND CAPITAL EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

<u>Category</u>	<u>Vendor</u>	<u>Budget</u>	<u>Actual Expenditure</u>	<u>Variance Positive (Negative)</u>
<b>CAPITAL EXPENDITURES</b>				
Project T-0520-Houston Ave & White Oak Dr Intersection	SKLaw/Jones & Carter/SMW/RAC Industries	<u>\$ 300,000</u>	<u>\$ 80,133</u>	<u>\$ 219,867</u>
Project T-0521-Little Thicket Park Improvements	SKLaw/Jones & Carter/SMW/Mills Equipment	<u>\$ 770,000</u>	<u>\$ 560,289</u>	<u>\$ 209,711</u>
Project T-0523-Shepherd/Durham Reconstruction	SKLaw/Jones & Carter/SMW/The Goodman Group	<u>\$ - 0 -</u>	<u>\$ 1,008,412</u>	<u>\$ (1,008,412)</u>
Project T-0525-Reconstruct Bridges Over White Park (Part of North Canal Project)	Jones & Carter/SMW	<u>\$ 1,000,000</u>	<u>\$ 9,161</u>	<u>\$ 990,839</u>
Project T-0527-Heights Boulevard Pedestrian and Bicycle Safety Improvements	Jones & Carter/SMW	<u>\$ 730,000</u>	<u>\$ 136,196</u>	<u>\$ 593,804</u>
Project T-0528-Selected Streets Between Shepherd and Durham	Jones & Carter	<u>\$ - 0 -</u>	<u>\$ 32,075</u>	<u>\$ (32,075)</u>
Project T-0530-Segment of Trail Between White Oak Bayou and Memorial Park	Jones & Carter	<u>\$ - 0 -</u>	<u>\$ 18,736</u>	<u>\$ (18,736)</u>
<b>TOTAL CAPITAL EXPENDITURES</b>		<u><u>\$ 2,800,000</u></u>	<u><u>\$ 1,845,002</u></u>	<u><u>\$ 954,998</u></u>

See accompanying independent auditor's report.



**APPENDIX C**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

# SKLAW

Sanford | Kuhl | Hagan | Kugle | Parker | Kahn LLP

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April 20, 2021

WE HAVE ACTED as bond counsel in connection with the issuance by Memorial-Heights Redevelopment Authority (the “Authority”) of its bonds styled “Memorial-Heights Redevelopment Authority Tax Increment Contract Revenue Bonds, Series 2021” (the “Bonds”) dated April 20, 2021 (the “Delivery Date”), issued in the aggregate principal amount of \$40,000,000, pursuant to the terms of an Indenture of Trust dated March 4, 2021 (the “Indenture”), by and between the Authority and Regions Bank, and a Bond Order, dated March 4, 2021 (the “Bond Order”). Except as otherwise set forth herein, terms that are defined in the Indenture and used in this opinion have the same meanings as in the Indenture.

The Bonds mature on September 1 in the years 2021 through 2037, both inclusive, and 2039, 2043, and 2048. The Bonds maturing in the years 2031 and thereafter are subject to redemption prior to maturity on September 1, 2030, or on any date thereafter, for the par value thereof plus accrued and unpaid interest to the date of redemption. The Bonds maturing in the years 2039, 2043 and 2048 (the “Term Bonds”) are subject to mandatory redemption, subject to reduction by prior cancellation or optional redemption, at a price equal to the principal amount of the Bonds or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption.

THE BONDS BEAR INTEREST from Delivery Date, or from the most recent interest payment date to which interest has been paid or duly provided for with such interest being payable on September 1, 2021, and on each March 1 and September 1 thereafter to maturity or prior redemption (each an “Interest Payment Date”), at the following interest rates for the respective maturity dates of the Bonds:

<u>YEAR OF</u> <u>STATED MATURITY</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>
2021	\$ 975,000	5.000%
2022	\$ 835,000	5.000%
2023	\$ 880,000	5.000%
2024	\$ 925,000	5.000%
2025	\$ 970,000	5.000%
2026	\$1,020,000	5.000%
2027	\$1,075,000	5.000%
2028	\$1,130,000	5.000%
2029	\$1,190,000	5.000%
2030	\$1,250,000	5.000%
2031	\$1,300,000	3.000%
2032	\$1,340,000	3.000%
2033	\$1,380,000	3.000%
2034	\$1,415,000	2.000%

2035	\$1,445,000	2.125%
2036	\$1,475,000	2.125%
2037	\$1,510,000	2.250%

The Term Bonds shall mature on the first day of September in each of the years, and in the amounts, respectively, set forth below. Such bonds shall bear interest from the Delivery Date or the most recent Interest Payment Date to which interest has been paid or duly provided for at the following per annum rates:

<u>YEAR OF STATED MATURITY</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>
2039	\$3,145,000	3.000%
2043	\$6,885,000	3.000%
2048	\$9,855,000	3.000%

The Term Bonds are subject to mandatory redemption on the first day of September in the years and in the amounts set forth below (subject to reduction by optional redemption as herein provided) at a price equal to the principal amount of the Bonds or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

<u>2039 Term Bond</u>	<u>\$3,145,000</u>
<u>Year of Mandatory Redemption</u>	<u>Principal Amount</u>
2038	\$1,550,000
2039	\$1,595,000
<u>2043 Term Bond</u>	<u>\$6,885,000</u>
<u>Year of Mandatory Redemption</u>	<u>Principal Amount</u>
2040	\$1,645,000
2041	\$1,695,000
2042	\$1,745,000
2043	\$1,800,000
<u>2048 Term Bond</u>	<u>\$9,855,000</u>
<u>Year of Mandatory Redemption</u>	<u>Principal Amount</u>
2044	\$1,855,000
2045	\$1,910,000
2046	\$1,970,000
2047	\$2,030,000
2048	\$2,090,000

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exemption of interest on the Bonds from federal income taxation. We have not investigated or verified original proceedings, records, data, or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have assumed no

responsibility with respect to the financial condition of the City of Houston (“City”), Reinvestment Zone Number 5, City of Houston, the Authority, or the Trustee, or the reporting or disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement, dated March 24, 2021, has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified materials pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the Authority, including, among other things, the Bond Order, together with customary certificates of officers, agents and representatives of the Authority and other documents relating to the authorization and issuance of the Bonds. We have also reviewed and examined such applicable provisions of the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), Treasury Regulations, court decisions, and rulings of the Internal Revenue Service (the “Service”) and such other materials as we deemed necessary to render the opinions hereinafter expressed. We also have examined executed Bond No. IB-1 of this issue.

BASED ON SUCH EXAMINATION, WE ARE OF THE OPINION THAT:

1. The Authority has been validly created and organized and that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; the Indenture, the Bond Order and the Bonds have been authorized, executed and delivered by the Authority; and that, therefore, the Bonds are valid and legally binding obligations of the Authority, enforceable in accordance with the terms and conditions set forth therein, except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting creditors’ rights or by the exercise of judicial discretion in accordance with general principles of equity.

2. The Bonds are special obligations of the Authority entitled to the benefits and security of the Indenture and payable, both as to principal and interest, from Pledged Revenues and are not obligations of the State of Texas, Harris County, the City, or any other entity.

3. Pursuant to section 103 of the Code, and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance by the Authority with the provisions of the Bond Order after the date hereof, interest on the Bonds (1) will be excludable from gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) is not a specific preference item for purposes of the federal alternative minimum tax.

In providing the foregoing opinions, we have relied upon representations and certifications of the Authority and other parties involved in the issuance of the Bonds with respect to matters solely within the knowledge of the Authority and such parties, which we have not independently verified, and we have assumed the accuracy and completeness of, and the Authority’s continuing compliance with, the representations and covenants contained in the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete, or the Authority fails to comply with the foregoing provisions of the Bond Order, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.



Except as stated above, we express no opinion with respect to any other federal, state or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition and disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Authority as the taxpayer. We observe that the Authority has covenanted in the Bond Order not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

The Authority has reserved the right in the Bond Order to issue Additional Parity Bonds payable from and secured by a first lien on the Pledged Revenues, on a parity with the Bonds, in accordance with terms of the Indenture.

**APPENDIX D**

**SPECIMEN 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