

OFFICIAL STATEMENT DATED APRIL 14, 2021

IN THE OPINION OF MCCALL, PARKHURST & HORTON L.L.P., BOND COUNSEL TO THE DISTRICT, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS."

NEW ISSUE – Book-Entry Only

Rating:
S&P: "AA" (Stable Outlook)/Insured
S&P: "A"/Underlying
Insurance: AGM
See: "MISCELLANEOUS – Rating"

\$7,695,000

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
(A political subdivision of the State of Texas located within Travis County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated Date: May 20, 2021

Due: August 15, as shown on the inside cover page

Interest to Accrue from the Date of Initial Delivery

The bonds described above (the "Bonds") are obligations solely of Travis County Municipal Utility District No. 11 (the "District") and are not obligations of the State of Texas ("State"), Travis County, Lake Travis Independent School District, the City of Lakeway (the "City") or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Dallas, Texas, (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the Date of Initial Delivery, defined below, and will be payable on the basis of a 360-day year consisting of twelve 30-day months payable each August 15 and February 15, commencing August 15, 2021, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity as shown on the inside cover page.

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

Proceeds of the Bonds will be used to (i) refund, on a current basis, a portion of the District's outstanding debt as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") to achieve a debt service savings and (ii) pay the costs associated with the issuance 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. See "BOND INSURANCE" herein.

CUSIP PREFIX: 89440A
MATURITY SCHEDULE
See Inside Cover Page

The Bonds are offered by the underwriter (the "Underwriter") subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the District. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. See "LEGAL MATTERS." Delivery of the Bonds through DTC is expected on May 20, 2021 (the "Date of Initial Delivery").

SAMCO CAPITAL

MATURITY SCHEDULE

| 8/15 Maturity | Principal Amount | Interest Rate | Initial Yield ^(a) | CUSIP Numbers ^(c) |
|---------------------|---------------------|------------------|---------------------------------|---------------------------------|
| 2022 | \$ 60,000 | 3.000% | 0.220% | 89440AHE1 |
| 2023 | 495,000 | 3.000% | 0.280% | 89440AHF8 |
| 2024 | 510,000 | 3.000% | 0.410% | 89440AHG6 |
| 2025 | 525,000 | 3.000% | 0.590% | 89440AHH4 |
| 2026 | 540,000 | 2.000% | 0.770% | 89440AHJ0 |
| 2027 ^(b) | 550,000 | 1.000% | 1.040% | 89440AHK7 |
| 2028 ^(b) | 555,000 | 1.000% | 1.200% | 89440AHL5 |
| 2029 ^(b) | 565,000 | 1.000% | 1.350% | 89440AHM3 |
| 2030 ^(b) | 565,000 | 1.250% | 1.500% | 89440AHN1 |
| 2031 ^(b) | 570,000 | 1.375% | 1.630% | 89440AHP6 |
| 2032 ^(b) | 580,000 | 1.500% | 1.700% | 89440AHQ4 |
| 2033 ^(b) | 335,000 | 2.000% | 1.650% | ^(d) 89440AHR2 |
| 2034 ^(b) | 330,000 | 2.000% | 1.740% | ^(d) 89440AHS0 |
| 2035 ^(b) | 325,000 | 2.000% | 1.830% | ^(d) 89440AHT8 |
| 2036 ^(b) | 290,000 | 2.000% | 1.920% | ^(d) 89440AHU5 |
| 2037 ^(b) | 290,000 | 2.000% | 1.980% | ^(d) 89440AHV3 |
| 2038 ^(b) | 300,000 | 2.000% | 2.030% | 89440AHW1 |
| 2039 ^(b) | 310,000 | 2.000% | 2.060% | 89440AHX9 |

(Interest to accrue from the Date of Initial Delivery)

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.
- (b) Bonds maturing on and after August 15, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.
- (c) 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. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Underwriter, the District, or the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part and as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of certain maturities of the Bonds.
- (d) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2026, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement 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.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701, for further information.

Any references to a website address 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 websites 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, Rule 15c2-12 of the United States Securities and Exchange Commission.

The statements contained in this Official statement, and in other information provided by the District, that are not purely historical, are forward-looking statements, including regarding the District's expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof and the District assumes no obligation to update any such forward-looking statements. See "INVESTMENT CONSIDERATIONS – Forward Looking Statements."

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

SALE AND DISTRIBUTION OF THE BONDS

UNDERWRITING . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof less an Underwriter's discount of \$58,276.09. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibility to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. See "INVESTMENT CONSIDERATIONS – Infectious Disease Outbreak (COVID-19)." Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

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 C – Specimen Municipal Bond Insurance Policy.”

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire Official Statement and of the documents summarized or described therein.

THE DISTRICT

Description The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (“TCEQ”), on June 18, 1999, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 383.694 acres of land. See “THE DISTRICT.”

Location The District is located approximately 20 miles northwest of the central downtown business district of the City of Austin and lies partially within the extraterritorial jurisdiction but substantially within the corporate limits of the City of Lakeway and wholly within the boundaries of the Lake Travis Independent School District. The District is located on the west side of Farm to Market Road 620 with access from Lakeway Blvd. and State Highway 71. See “AERIAL BOUNDARY MAP.”

The Developer Portions of the land comprising the District were acquired by Las Ventanas Land Partners, Ltd. (“Las Ventanas”) in late 2004, with other portions acquired by JH West Land Ventures, Ltd. (“JHWest”) in early 2006. Until November 1, 2017, Rough Hollow Development, Ltd. (“Prior Developer”), which was created to acquire and develop the property in the District and fund development costs, was the primary developer of the land in the District.

On November 1, 2017, the Prior Developer, Las Ventanas and JHWest restructured ownership, and their remaining land in the District was transferred into two new partnerships, RH Lakeway Holdings, Ltd. (“Holdings”) and RH Lakeway Development, Ltd. (“Developer”). Holdings was formed to hold land for future sale. The Developer was created to develop the property in the District and fund development costs and is the primary developer of land in the District. The Prior Developer no longer holds any interest in land in the District.

The Developer is a Texas limited partnership. The Developer’s general partner is RH Lakeway Development GP, LLC, a Texas limited liability company, and its limited partners are John Scardino, Haythem Dawlett, JH Rough Hollow, LLC, and International Bancshares Corporation.

The Developer arranges development financing prior to commencing development of the land, which has been developed as single-family residential subdivisions, the majority of which is known as Rough Hollow. See “THE DISTRICT – Status of Development.”

Status of Development As of January 25, 2021, all sections, consisting of 520 single-family residential lots on approximately 368 acres, have been 100% developed with utilities including water, wastewater and drainage improvements and paved with internal roads; a total of 492 homes were complete and occupied; 3 homes were complete and vacant; 6 homes were under construction or continued to be owned by various builders; and 19 lots are available for construction and owned by individuals or homebuilders with the exception of one lot currently owned by the Developer but under contract for sale. Homes within the District range in market value from approximately \$280,000 to in excess of \$2,350,000. See “THE DISTRICT – Status of Development.”

Homebuilders There have been a number of homebuilders active during the build-out of the District. See “THE DEVELOPER – Homebuilders.”

Payment Record The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations.

THE BONDS

| | |
|--|---|
| <i>Description</i> | \$7,695,000 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”) on March 4, 2021 and a pricing certificate executed on the date of sale of the Bonds by the pricing officer designated in the order (the order and the pricing certificate are collectively referred to herein as the “Bond Order”). The Bonds are scheduled to mature on August 15 in the years 2022 through and including 2039. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds will accrue from the Date of Initial Delivery and will be payable August 15, 2021, and each February 15 and August 15 thereafter, until the earlier of maturity or redemption. See “THE BONDS.” |
| <i>Book-Entry-Only.....</i> | 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 certificate will be issued for each maturity of the Bonds and will be deposited with DTC. |
| <i>Redemption</i> | The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2027, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 2026, or any date thereafter, at a price of 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 District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). See “THE BONDS – Optional Redemption.” |
| <i>Use of Proceeds</i> | Proceeds of the Bonds will be used to (i) refund, on a current basis, a portion of the District’s outstanding debt as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) pay the costs associated with the issuance of the Bonds. |
| <i>Authority for Issuance.....</i> | The Bonds are the third series of refunding bonds issued out of an aggregate of \$27,330,109 of refunding bonds authorized by the District’s voters on May 6, 2000 for the purpose of refunding outstanding obligations of the District and are issued pursuant to the Texas Constitution and the general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended. After the issuance of the Bonds, the District will have \$26,065,118 of authorized but unissued refunding bonds remaining from the May 6, 2000 election. The District also currently has \$20,846,322 of authorized but unissued bonds from the May 6, 2000 election (out of an aggregate \$42,046,322) which were authorized for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system. See “INVESTMENT CONSIDERATIONS – Future Debt” and “THE BONDS – Authority for Issuance.” |
| <i>Source of Payment</i> | Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Lakeway, Lake Travis ISD, Travis County, the State of Texas or any entity other than the District. See “THE BONDS – Source of Payment.” |
| <i>Municipal Bond Rating and Insurance</i> | The Bonds have been rated “AA” by S&P Global Ratings (“S&P”) by virtue of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District are rated “A” by S&P without regard to credit enhancement. See “MISCELLANEOUS – Rating.” |
| <i>Qualified Tax-Exempt Obligations</i> | The District has designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.” |
| <i>Bond Counsel.....</i> | McCall, Parkhurst & Horton L.L.P., Austin, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.” |
| <i>General Counsel.....</i> | Armbrust & Brown, PLLC, Austin, Texas. |

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 with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

| | | |
|--|-------------------|-----|
| 2017 Certified Taxable Assessed Valuation | \$ 284,996,693 | (a) |
| 2018 Certified Taxable Assessed Valuation | 317,089,018 | (a) |
| 2019 Certified Taxable Assessed Valuation | 331,575,995 | (a) |
| 2020 Certified Taxable Assessed Valuation | 339,046,009 | (a) |
| Gross Direct Debt Outstanding | \$ 16,025,000 | (b) |
| Estimated Overlapping Debt..... | <u>10,655,782</u> | (c) |
| Gross Direct Debt and Estimated Overlapping Debt | \$ 26,680,782 | |
| Ratios of Gross Direct Debt to: | | |
| 2020 Certified Taxable Assessed Valuation | 4.73% | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2020 Certified Taxable Assessed Valuation | 7.87% | |
| Debt Service Funds Balance as of March 4, 2021 | \$ 2,197,513 | |
| General Operating Fund Balance as of March 4, 2021 | \$ 3,600,496 | |
| 2020 District Debt Service Tax Rate | \$ 0.3750 | |
| 2020 District Maintenance Tax Rate..... | \$ 0.1225 | |
| 2020 Tax Rates for Overlapping Entities: | | |
| Travis County | \$ 0.3744 | |
| City of Lakeway | 0.1645 | |
| Travis County ESD #6..... | 0.1000 | |
| Travis County Healthcare District | 0.1103 | |
| Lake Travis Independent School District..... | <u>1.3239</u> | |
| Total Projected Overlapping Tax Rate | \$ 2.0731 | |
| Average Annual Debt Service Requirement (2021-2039) | \$ 1,026,387 | (b) |
| Maximum Annual Debt Service Requirement (2030) | \$ 1,242,844 | (b) |
| Tax Rates Required to Pay Average Annual Debt Service (2021-2039) at a 97.5% Collection Rate | | |
| Based upon 2020 Certified Taxable Assessed Valuation..... | \$ 0.3105 | (b) |
| Tax Rates Required to Pay Maximum Annual Debt Service (2030) at a 97.5% Collection Rate | | |
| Based upon 2020 Certified Taxable Assessed Valuation..... | \$ 0.3760 | (b) |
| Status of Development as of January 25, 2021: | | |
| Homes Completed and Occupied..... | 492 | |
| Vacancies..... | 3 | |
| Homes Under Construction or Owned by a Homebuilder | 6 | |
| Lots Available for Home Construction | 19 | |
| Developed Acreage..... | 293.784 | |
| Undevelopable acreage | 89.910 | |
| Estimated Population | 1,803 | (d) |

(a) As provided by the Travis Central Appraisal District (the "Appraisal District" or "TCAD").

(b) Includes the Bonds and excludes the Refunded Bonds. See "DEBT SERVICE REQUIREMENTS."

(c) See "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt."

(d) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT
\$7,695,000
TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
(A political subdivision of the State of Texas located within Travis County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

This Official Statement provides certain information in connection with the issuance by Travis County Municipal Utility District No. 11 (the “District”) of its \$7,695,000 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”).

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on March 4, 2021 and a pricing certificate executed by the pricing officer authorized by the order (the order and pricing certificate are collectively referred to herein as the “Bond Order”), and the Constitution and general laws of the State of Texas (the “State”) including Chapter 1207, Texas Government Code, as amended.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, the developer, and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

PLAN OF FINANCING

REFUNDED BONDS . . . The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, NA, Dallas, Texas (the “Escrow Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the District, if any, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund (as defined below), without regard to investment (if any), to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds in accordance with applicable law and thereafter the District will have no further responsibility with respect to the payment of such Refunded Bonds including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Bonds will no longer be payable from ad valorem taxes but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District.

SOURCES AND USES OF FUNDS . . . The proceeds from the sale of the Bonds, along with other lawfully available funds of the District, will be applied approximately as follows:

SOURCES OF FUNDS:

| | |
|----------------------------|------------------------|
| Par Amount of Bonds | \$ 7,695,000.00 |
| Net Original Issue Premium | 109,485.45 |
| District Contribution | 95,000.00 |
| Total Sources of Funds | <u>\$ 7,899,485.45</u> |

USES OF FUNDS:

| | |
|--|------------------------|
| Escrow Deposit | \$ 7,538,362.50 |
| Costs of Issuance (including bond insurance premium) | 298,487.70 |
| Underwriter's Discount | 58,276.09 |
| Deposit to Debt Service Fund | 4,359.16 |
| Total Uses of Funds | <u>\$ 7,899,485.45</u> |

THE BONDS

DESCRIPTION . . . The Bonds will be dated May 20, 2021 and will mature on the dates and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Initial Delivery, May 20, 2021, will be payable on each August 15 and February 15, beginning August 15, 2021 (each an “Interest Payment Date”) until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30 day months. 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 Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest 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 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 Standard & Poor’s rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown

on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or the, 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 District or Agent. Payments of principal and interest to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

SOURCE OF PAYMENT . . . While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose. The Bond Order provides for the termination of the pledge of taxes when and if the City annexes and dissolves the District and assumes all debts and liabilities of the District. See "THE BONDS – Annexation" and "INVESTMENT CONSIDERATIONS."

The Bonds are obligations of the District and are not the obligations of the State of Texas, Travis County, the City of Lakeway, Lake Travis Independent School District, or any entity other than the District.

FUNDS . . . The Bond Order creates or confirms the establishment and maintenance by the District of a Debt Service Fund and an Escrow Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the holders of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

DEBT SERVICE FUND . . . The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds and, to the extent authorized by law, any other District debt secured by property taxes. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the initial purchaser, the amount received from proceeds of the Bonds representing accrued interest and capitalized interest on the Bonds, if any, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds and any other District debt secured by property taxes when due, and to pay fees to the Paying Agent when due.

ESCROW FUND . . . The Refunded Bonds and the interest thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See "PLAN OF FINANCING."

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2027, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 2026, or any date thereafter, at a price of 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, and sinking fund installments, if any, of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity, or sinking fund installment with respect to any term Bonds, are to be redeemed, the particular Bonds within a maturity or sinking fund installment to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

At least 30 calendar days prior to the date fixed for any optional redemption of the Bonds or portions thereof prior to maturity a written notice of such optional redemption shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, to the owner of record ("Registered Owner") of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

AUTHORITY FOR ISSUANCE . . . The Bonds are the third series of refunding bonds issued out of an aggregate of \$27,330,109 principal amount of refunding bonds which were authorized by the District's voters on May 6, 2000 for the purpose of refunding outstanding obligations of the District and are issued pursuant to the Texas Constitution and the general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended. After the issuance of the Bonds, the District will have \$26,065,118 of authorized but unissued refunding bonds from the May 6, 2000 election. The District also currently has \$20,846,322 principal amount of authorized but unissued bonds from the May 6, 2000 election (out of an aggregate \$42,046,322) which was authorized for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

REGISTRATION AND TRANSFER . . . So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment 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 should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his 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 District to authenticate and deliver in exchange therefor, within three (3) 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 and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall 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. Each Bond delivered shall 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 District 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 the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District 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 shall be paid by the District.

LOST, STOLEN OR DESTROYED BONDS . . . In the event the book-entry-only system should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall 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 District, pursuant to the applicable laws of the State 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 District's costs to replace such bond. In addition, the District 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.

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

ANNEXATION . . . The District lies both within the extraterritorial jurisdiction and the corporate limits of the City. Under prior Texas law, the portion of the District within the extraterritorial jurisdiction of the City could have been annexed by the City without the District's consent. The Texas Legislature enacted significant changes to annexation policy by passing the Annexation Laws (as defined herein). Pursuant to changes in general law made by these bills, the City may annex portions of the District within the City's extraterritorial jurisdiction only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the creation. Changes implemented by the Annexation Laws could interfere with future efforts of the City to annex land within the District. See "THE BONDS – Source of Payment." See "INVESTMENT CONSIDERATIONS – Annexation."

ALTERATION OF BOUNDARIES . . . In certain circumstances, under Texas law the District may alter its boundaries to: (i) upon satisfying certain conditions, annex additional territory; and (ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied, including the simultaneous annexation by the District of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

APPROVAL OF THE BONDS . . . The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

REMEDIES IN EVENT OF DEFAULT . . . The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court rules in *Wasson Interest, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("*Wasson I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W. 3d 142 (Tex. 2018) ("*Wasson II*"), and together with *Wasson I*, "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract

claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Pursuant to Section 49.186, Texas Water Code and Chapter 1201, Texas Government Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for public funds of cities, school districts and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose other, more stringent, requirements in order for the Bonds to be legal investments of such entity's funds or to be eligible to serve as collateral for their funds.

The District 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 District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the legality or 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 . . . General... The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order. Thereafter the District will have no further responsibility with respect to amounts available to such Paying Agent/Registrar (or other financial institution permitted by applicable law) for the payment of such Defeased Bond, including any insufficiency therein caused by the failure of the Paying Agent/Registrar (or other financial institution permitted by law) to receive payment when due on the Defeasance Securities.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set

forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Paying Agent for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporations), (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide 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, (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide 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 (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

Retention of Rights. . . . To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing the issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

Investments . . . Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank, which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

AMENDMENTS TO BOND ORDER . . . The District may without the consent of or notice to any Registered Owner amend the Bond Order in any manner not detrimental to the interest of the Registered Owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may in the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

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BOND INSURANCE

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

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

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

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

Current Financial Strength Ratings: On October 29, 2020, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

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

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

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

Capitalization of AGM: At December 31, 2020:

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

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

Merger of MAC into AGM: On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM’s affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company (“AGC”) (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in

2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference: Portions of the following 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."

WASTEWATER SERVICES, WATER SUPPLY, WATER SERVICES AND PENDING MATTERS

The District was developed along with Travis County Municipal Utility District No. 12 ("MUD 12") and Travis County Municipal Utility District No. 13 ("MUD13") (collectively, the "Participating Districts"). The District is provided wastewater service from Lakeway Municipal Utility District ("Lakeway MUD") pursuant to the "Wholesale Wastewater Capacity and Services Agreement" dated effective July 29, 2015 between MUD 12 and Lakeway MUD (the "Lakeway MUD Agreement"). See "THE SYSTEM." The District, together with MUD 12 and MUD 13, has purchased a combined total of 400,000 gallons per day ("gpd") of wastewater treatment capacity in the Lakeway MUD S-5 Wastewater Treatment Plant. Lakeway MUD's S-5 Wastewater Treatment Plant operates under TCEQ Permit No. WQ0011495006 which currently authorizes disposal of up to 0.40 MGD of treated effluent via irrigation. The Lakeway MUD Agreement provides that Lakeway MUD will expand its S-5 Wastewater Treatment Plant as necessary to provide the Participating Districts with a total capacity of 400,000 gpd. All costs associated with such expansions will be paid by Lakeway MUD.

Pursuant to the "Third Amendment to Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services" effective August 19, 2015 (the "3rd Amendment") the District, MUD 12 and MUD 13 have allocated the 400,000 gpd wastewater capacity and prorated costs between the Participating Districts. The 3rd Amendment reserves the initial 94,800 gpd of capacity for the District, and the additional purchased capacity of 305,200 gpd (considered "Highlands Shared Capacity") between the District, MUD 12 and MUD 13 as provided in the "Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services" dated April 5, 2010 (the "MOU"). The Participating Districts adopted the "Fourth Amendment to Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity Services," effective April 1, 2021 (the "4th Amendment"). The 4th Amendment revises certain allocated capacity and cost allocations relating to shared costs and facilities under the MOU and the Participating Districts may undertake similar revisions in the future. The MOU, as amended, anticipates that the Participating Districts will negotiate and enter into a more detailed shared facilities agreement regarding these matters in the future.

The Lakeway MUD Agreement provides 400,000 gallons per day of capacity in the Lakeway MUD S-5 Wastewater Treatment Plant for service to the Participating Districts. Based upon the current measured average daily wastewater flows from the Participating Districts, it is contemplated that the Participating Districts' contractually reserved capacity in the Lakeway MUD S-5 Wastewater Treatment Plant will be sufficient to provide wastewater service for the full buildout of the Participating Districts.

If additional wastewater treatment infrastructure improvements were to become necessary at some time in the future in order to provide the 400,000 gallons per day to the Participating Districts, Lakeway MUD is contractually obligated to construct, at no cost to the Participating Districts, all improvements required in order to provide 400,000 gallons per day of wastewater capacity to the Participating Districts. If Lakeway MUD failed to do so, the District's ability to provide service could be adversely affected.

Further, if the contractually reserved capacity is not sufficient for full build-out of the Participating Districts, then, unless the Participating Districts obtain an alternative source of wastewater treatment to meet their additional service requirements, they would be required to purchase additional capacity from Lakeway MUD, which could adversely affect the timing of the development and costs.

The Participating Districts receive their raw water supply from the Lower Colorado River Authority ("LCRA") under the terms of a Firm Water Contract dated September 25, 2008 that has been entered into by MUD 12 on behalf of the Participating Districts (the "Raw Water Contract").

The MOU, as amended, describes the Participating Districts' agreement to, among other things, (i) share the 1,680 acre feet of raw water supply provided by LCRA under the terms of the Raw Water Contract, (ii) jointly construct and operate certain water and wastewater facilities which will serve Lakeway Highlands; and (iii) share the wastewater treatment capacity provided by Lakeway MUD under the Lakeway MUD Contract. Treatment of raw water necessary to serve Lakeway Highlands, including all of the land within the District, is provided through the West Travis County Water System under a Wholesale Water Services Agreement dated effective October 20, 2009, which MUD 12 originally entered with the LCRA on behalf of the Participating Districts (the "LCRA Water Services Contract"). On March 19, 2012, the LCRA transferred certain rights and obligations related to the West Travis County Water System, including the LCRA Water Services Contract, to the West Travis County Public Utility Agency (the "PUA"), and the PUA is now providing wholesale water treatment and delivery services to Lakeway Highlands under the terms of the LCRA Water Services Contract. The PUA has purchased the West Travis County Water System from the LCRA under the terms of an installment purchase contract.

Effective January 1, 2014, the PUA implemented changes in its rate methodology that have significantly increased the rates charged by the PUA for wholesale water services to the District and the other Participating Districts and are projected to continue to increase such rates in the future. On March 6, 2014, MUD 12, as the managing district under the MOU, filed an administrative appeal on behalf of the Participating Districts before the Public Utility Commission of Texas (the "PUCT") appealing a change of wholesale water rates implemented by the PUA under the LCRA Water Services Contract. MUD 12's appeal sought to have the PUCT declare that the rates for wholesale water service charged to the Participating Districts and the rate methodology used by the PUA to set the rates adversely affected the public interest, and to ultimately require the PUA to submit to the rate setting authority of the PUCT for a determination of just and reasonable rates. After a contested case hearing and based on a recommendation by an Administrative Law Judge, the PUCT concluded that the rate and methodology were not adverse to the public interest and denied the MUD 12's appeal.

MUD 12's lawsuit in District court asserting a breach of contract claim against the PUA relating to the PUA's rates was unsuccessful. If wholesale water service rates for future years continue to increase under the PUA's revised rate methodology, those increases would result in corresponding increases to the District's cost of service as well as the rates charged by the District to its customers and could adversely affect customer water usage and revenues. Such increases could also affect the marketability of lots and homes within the District.

Under the terms of the Utility Construction Agreement ("UCA") between the District and the Prior Developer dated effective as of January 10, 2012, as amended, the Prior Developer agreed to advance and pay all of the District's costs under the Raw Water Contract that are not directly related and attributable to raw water used to provide service to the District's customers, as well as the District's costs under the MOU, as amended, and the LCRA Water Services Contract that are not directly related and attributable to services being provided to its customers until the District is utilizing all capacity or services allocated to it or has sufficient revenues to pay all costs associated with unused capacity or service. The Prior Developer assigned the UCA to the Developer, and the Developer assumed and agreed to perform all of the Prior Developer's obligations under the UCA, by Assignment of Utility Construction Agreement, Facilities and Capacity and Reimbursement Rights and District Consent dated effective as of November 1, 2017. The Prior Developer also assigned its rights and obligations under the MOU, as amended, to the Developer and the Developer assumed and agreed to perform all of the Prior Developer's obligations under the MOU, as amended, by Assignment of Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Water Capacity and Services dated effective November 1, 2017. The District's expenses could be detrimentally affected if the Developer fails to pay sums it has agreed to pay under the UCA and/or MOU.

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THE DISTRICT

GENERAL . . . The District is a municipal utility district created by an order of the Texas Natural Resource Conservation Commission (predecessor to the TCEQ) dated June 18, 1999. The creation of the District was confirmed at an election held within the District on May 6, 2000. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

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

The TCEQ exercises continuing supervisory jurisdiction over the District. Under the terms of the consent resolution of the City of Lakeway, within whose extraterritorial jurisdiction and corporate limits the District is located, the District is required to observe certain requirements of the City of Lakeway which limit the purpose for which the District may sell bonds and limit the net effective interest rate on such bonds and other terms of such bonds. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM – Regulation."

LAND USE . . . The following table has been provided by the Engineer and represents the current and planned land use within the District.

| | Approximate <u>Acres</u> | <u>Lots</u> |
|----------------------------|-----------------------------|-------------|
| Single-Family Residential | | |
| Developed Acreage..... | 293.784..... | 520 |
| Undevelopable Acreage..... | 89.910..... | 0 |
| Totals | 383.694..... | 520 |

STATUS OF DEVELOPMENT . . . As of January 25, 2021, all sections, consisting of 520 single-family residential lots on approximately 368 acres, have been developed with utilities including water, wastewater and drainage improvements and paved with internal roads; a total of 492 homes were complete and occupied; 3 homes were complete and vacant; 6 homes were under construction; and 19 lots are owned by individuals or homebuilders with the exception of one lot owned by the Developer and currently under contract for sale. All 19 lots are available for home construction. Homes within the District range in market value from approximately \$280,000 to in excess of \$2,350,000.

DISTRICT FULLY DEVELOPED . . . All developable acreage within the District has been fully developed with internal roads as well as water, wastewater and drainage infrastructure.

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THE DEVELOPER

ROLE OF A DEVELOPER . . . In general, the activities of a landowner or developer in a municipal utility district such as the District include conceptualizing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave certain streets in a district, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

DESCRIPTION OF THE DEVELOPER . . . Portions of the land comprising the District were acquired by Las Ventanas Land Partners, Ltd. ("Las Ventanas") in late 2004, with other portions acquired by JH West Land Ventures, Ltd. ("JHWest") in early 2006. Until November 1, 2017, Rough Hollow Development, Ltd. ("Prior Developer"), which was created to acquire and develop the property in the District and fund development costs, was the primary developer of the land in the District.

On November 1, 2017, the Prior Developer, Las Ventanas and JHWest restructured ownership, and their remaining land in the District was transferred into two new partnerships, RH Lakeway Holdings, Ltd. ("Holdings") and RH Lakeway Development, Ltd. ("Developer"). Holdings was formed to hold land for future sale. The Developer was created to develop the property in the District and fund development costs and is the primary developer of land in the District. The Prior Developer no longer holds any interest in land in the District.

The Developer is a Texas limited partnership. The Developer's general partner is RH Lakeway Development GP, LLC, a Texas limited liability company, and its limited partners are John Scardino, Haythem Dawlett, JH Rough Hollow, LLC, and International Bancshares Corporation.

The Developer arranges development financing prior to commencing development of the land, which has been and is being developed as single-family residential subdivisions, the majority of which is known as Rough Hollow.

DEVELOPMENT FINANCING . . . According to the Developer, the Prior Developer previously obtained development financing with various loans from First Horizon Home Loans ("First Horizon"), a division of First Tennessee Bank, N.A., and IBC Bank, all of which have been paid in full.

On November 1, 2017, the Developer obtained acquisition and development financing through a Development Loan Agreement with IBC Bank for a revolving loan (the "IBC Loan"). The maximum stated principal amount of the IBC Loan is \$60,000,000. The IBC Loan provided financing for the completed lots in Lakeway Highlands and Rough Hollow and provided new development financing for all future sections in Lakeway Highlands, Phase 1, Phase 2 and Phase 3.

The unpaid principal balance on the IBC Loan was \$23,199,996.47 as of February 28, 2021 with remaining loan advances available of \$14,027,092.39. The interest rate on the IBC Loan is the Prime Rate +1%, but no less than 5.5%. The maturity date of the IBC Loan is November 1, 2021.

The Developer has represented that it is in compliance with the terms of the IBC Loan.

HOMEBUILDERS . . . The Developer has advised the District that the following home builders have constructed homes in the District: Zbranek Custom Homes, Masters Touch, Jenkins Custom Homes, VII Custom Homes, Triton Homes, Coventry Homes, Monterrey Homes, Grand Haven Homes, Scott Felder Homes, Standard Pacific Homes, Lennar Homes of Texas (Village Builders), Taylor Morrison Homes, Bella Vita Custom Homes, BHJ Homes LLC, Westin Homes and various other custom home builders.

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MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS . . . The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held on the first Tuesday of November in even numbered years only. Two of the board members reside in the District and each of the other members owns a small parcel of land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|---------------------|---------------------|
| J.J. Minahan, Jr. | President | November 2022 |
| Jamie Newhouse | Vice President | November 2022 |
| David Cox | Secretary | November 2024 |
| Jennifer Wiebrand | Assistant Secretary | November 2022 |
| David Busch | Assistant Secretary | November 2024 |

DISTRICT CONSULTANTS . . . The District does not have full-time employees, but contracts for certain necessary services as described below.

Tax Appraisal: The Travis Central Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The District contracts with the Travis County Tax Assessor/Collector (the “Tax Assessor/Collector”) to serve in this capacity.

Management: The District has contracted with JadCo Management, Inc. for general management services.

Engineer: The District’s consulting engineer is Carlson, Brigrance & Doering, Inc.

Bookkeeper: The District has contracted with Bott & Douthitt, P.L.L.C. for bookkeeping services.

Auditor: The District’s financial statements for the year ended March 31, 2020, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See APPENDIX B for a copy of the District’s audited March 31, 2020 financial statements.

Bond Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as Bond Counsel in connection with the issuance of the District’s debt obligations. Bond Counsel fees are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Specialized Public Finance Inc. serves as the District’s Financial Advisor. The fee for financial advisory services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

General Counsel: The District has engaged Armbrust & Brown, PLLC as general counsel to the District. Compensation to the firm for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Compensation for other legal services to the District is based on time charges actually incurred.

THE SYSTEM

REGULATION . . . Construction and operation of the District’s sanitary sewer, water distribution and storm drainage system (the “System”) as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District and portions of the System. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City of Lakeway and Travis County.

WATER SUPPLY AND WASTEWATER TREATMENT . . . Water treatment services for the Rough Hollow portion of the District is provided through a Wholesale Water and Wastewater Agreement with the Lakeway MUD (375 LUE’s) and water treatment services for the Lakeway Highlands portion of the District and the Participating MUDs is provided through a Wholesale Water Services Agreement entered into with the LCRA and assigned by the LCRA to the West Travis County PUA for raw water purchased from the LCRA under the Firm Water Contract between the LCRA and MUD 12 (1,680 ac ft annually, approximately 2,500 LUE’s). See “WASTEWATER SERVICES, WATER SUPPLY, WATER SERVICES AND PENDING MATTERS.” As of January 25, 2021, the District had 492 complete and occupied units; 3 complete and vacant units and 6 units under construction; and 19 lots available for construction. According to the District’s engineer, the District has adequate firm water service capacity to serve all current and anticipated residents of the District.

Wastewater treatment services for the District, MUD 12 and MUD 13 is provided through the Wholesale Wastewater Capacity and Services Agreement between MUD 12 and Lakeway MUD. Please see “WASTEWATER SERVICES, WATER SUPPLY, WATER SERVICES AND PENDING MATTERS.” The District, together with MUD 12 and MUD 13, has purchased a combined

total of 400,000 gallons per day (“gpd”) of wastewater treatment capacity in the Lakeway MUD S-5 Wastewater Treatment Plant. Lakeway MUD’s S-5 Wastewater Treatment Plant operates under TCEQ Permit No. WQ0011495006 which currently authorizes disposal of up to 0.40 MGD of treated effluent via irrigation. The Lakeway MUD Agreement provides that Lakeway MUD will expand its S-5 Wastewater Treatment Plant as necessary to provide the Participating Districts with a total capacity of 400,000 gpd. All costs associated with such expansions will be paid by Lakeway MUD. According to the District’s engineer, the District has adequate firm wastewater service capacity to serve all current and anticipated residents of the District.

WATER DISTRIBUTION, WASTEWATER COLLECTION AND STORM DRAINAGE FACILITIES . . . The District and/or the Developer have constructed internal water distribution, internal wastewater collection facilities and storm drainage to serve the entire District. See “THE DISTRICT – Land Use.”

100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . . According to the District’s Engineer, 3.30 acres of the District lies within the floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map. “Flood Insurance Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the “100-year flood plain,” is depicted on these maps. The 100-year flood plain (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. No development has occurred or is expected to occur in the floodplain.

The National Weather Service recently completed a rainfall study known as Atlas 14 which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along the I-10 corridor to Central Texas. In particular the study shows that Central Texas is more likely to experience larger storms than previously thought. Based on this study, various governmental entities, including Williamson County, are contemplating amendments to their regulations that will potentially increase the size of the 100 year floodplain which interim floodplain is based on the current 500-year floodplain, resulting in the interim floodplain regulations applying to a larger number of properties, and potentially increasing the size of detention ponds and drainage facilities required for future construction in all areas (not just in the floodplain). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on the higher statistical rainfall amount, and could result in less developable property within the District, higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

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DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the Bonds at the rates shown on the inside cover page.

| Year Ending 12/31 ^(a) | Outstanding Debt ^(b) | | | The Bonds | | | Total Debt Service Requirements |
|--|---------------------------------|--------------|---------------|--------------|--------------|--------------|---------------------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 2021 | \$ 780,000 | \$ 368,981 | \$ 1,148,981 | \$ - | \$ 33,622 | \$ 33,622 | \$ 1,182,603 |
| 2022 | 795,000 | 216,844 | 1,011,844 | 60,000 | 142,400 | 202,400 | 1,214,244 |
| 2023 | 390,000 | 197,244 | 587,244 | 495,000 | 140,600 | 635,600 | 1,222,844 |
| 2024 | 405,000 | 188,044 | 593,044 | 510,000 | 125,750 | 635,750 | 1,228,794 |
| 2025 | 415,000 | 177,044 | 592,044 | 525,000 | 110,450 | 635,450 | 1,227,494 |
| 2026 | 430,000 | 165,744 | 595,744 | 540,000 | 94,700 | 634,700 | 1,230,444 |
| 2027 | 450,000 | 153,944 | 603,944 | 550,000 | 83,900 | 633,900 | 1,237,844 |
| 2028 | 460,000 | 141,544 | 601,544 | 555,000 | 78,400 | 633,400 | 1,234,944 |
| 2029 | 475,000 | 128,844 | 603,844 | 565,000 | 72,850 | 637,850 | 1,241,694 |
| 2030 | 495,000 | 115,644 | 610,644 | 565,000 | 67,200 | 632,200 | 1,242,844 |
| 2031 | 505,000 | 101,375 | 606,375 | 570,000 | 60,138 | 630,138 | 1,236,513 |
| 2032 | 520,000 | 86,425 | 606,425 | 580,000 | 52,300 | 632,300 | 1,238,725 |
| 2033 | 465,000 | 68,675 | 533,675 | 335,000 | 43,600 | 378,600 | 912,275 |
| 2034 | 480,000 | 53,600 | 533,600 | 330,000 | 36,900 | 366,900 | 900,500 |
| 2035 | 495,000 | 37,760 | 532,760 | 325,000 | 30,300 | 355,300 | 888,060 |
| 2036 | 250,000 | 20,410 | 270,410 | 290,000 | 23,800 | 313,800 | 584,210 |
| 2037 | 260,000 | 13,910 | 273,910 | 290,000 | 18,000 | 308,000 | 581,910 |
| 2038 | 260,000 | 7,020 | 267,020 | 300,000 | 12,200 | 312,200 | 579,220 |
| 2039 | - | - | - | 310,000 | 6,200 | 316,200 | 316,200 |
| | \$ 8,330,000 | \$ 2,243,050 | \$ 10,573,050 | \$ 7,695,000 | \$ 1,233,310 | \$ 8,928,310 | \$ 19,501,360 |

(a) The District's fiscal year end is March 31. Due to the timing of tax collection receipts, the District budgets for its August debt service payment in the previous fiscal year.

(b) Excludes the Refunded Bonds.

| | |
|--|--------------|
| Average Annual Debt Service Requirements (2021-2039) | \$ 1,026,387 |
| Maximum Annual Debt Service Requirement (2030)..... | \$ 1,242,844 |

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ESTIMATED OVERLAPPING DEBT . . . The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas.

Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

| <u>Taxing Jurisdiction</u> | <u>Outstanding Bonds</u> | <u>As of</u> | <u>Percent</u> | <u>Overlapping Amount</u> |
|---|------------------------------|--------------|----------------|-------------------------------|
| Travis County | \$1,081,470,000 | 2/28/21 | 0.13% | \$ 1,405,911 |
| City of Lakeway | 29,075,000 | 2/28/21 | 6.40% | 1,860,800 |
| Travis County Healthcare District | 7,285,000 | 2/28/21 | 0.13% | 9,471 |
| Travis County ESD #6 | 2,525,000 | 2/28/21 | 1.95% | 49,238 |
| Lake Travis Independent School District..... | 350,735,000 | 2/28/21 | 2.09% | <u>7,330,362</u> |
| Total Estimated Overlapping Debt | | | | \$ 10,655,782 |
| The District's Total Direct Debt ^(a) | | | | <u>16,025,000</u> |
| Total Direct and Estimated Overlapping Debt | | | | \$ 26,680,782 |

Direct and Estimated Overlapping Debt as a Percentage of:

2020 Certified Taxable Assessed Valuation 7.87%

(a) Includes the Bonds and excludes the Refunded Bonds.

OVERLAPPING TAXES . . . Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property.

The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt"), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2020 tax year by all taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

| | <u>2020 Tax Rate Per \$100 Assessed Valuation</u> |
|--|---|
| Travis County | \$ 0.3744 |
| Lake Travis Independent School District..... | 1.3239 |
| City of Lakeway..... | 0.1645 |
| Travis County ESD #6 | 0.1000 |
| Travis County Healthcare District..... | <u>0.1103</u> |
| Total Overlapping Tax Rate | \$ 2.0731 |
| The District | <u>0.4975</u> |
| Total Tax Rate | \$ 2.5706 |

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TAX DATA

DEBT SERVICE TAX . . . The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See “INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments,” “– Historical Tax Rate Distribution” and “– Tax Roll Information” below, and “TAXING PROCEDURES.”

MAINTENANCE TAX . . . The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

TAX EXEMPTIONS . . . The District has not adopted any tax exemptions for property located within the District.

ADDITIONAL PENALTIES . . . The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty to defray the costs of collection.

HISTORICAL TAX RATE

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--------------|---------------|---------------|---------------|---------------|---------------|
| Debt Service | \$ 0.5200 | \$ 0.4877 | \$ 0.4450 | \$ 0.4050 | \$ 0.3750 |
| Maintenance | <u>0.1725</u> | <u>0.1225</u> | <u>0.1225</u> | <u>0.1225</u> | <u>0.1225</u> |
| Total | \$ 0.6925 | \$ 0.6102 | \$ 0.5675 | \$ 0.5275 | \$ 0.4975 |

HISTORICAL TAX COLLECTIONS . . . The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s tax assessor/collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

| Net Certified Taxable | | | | | | |
|-----------------------|-----------------------------------|----------|-------------------------------|-------------------|---------|---------|
| Tax Year | Assessed Valuation ^(a) | Tax Rate | Total ^(b) Tax Levy | Total Collections | | As of |
| | | | | Amount | Percent | |
| 2016 | 264,207,932 | 0.6925 | 1,829,640 | 1,825,981 | 99.8% | 9/30/17 |
| 2017 | 284,996,693 | 0.6102 | 1,739,050 | 1,730,355 | 99.5% | 9/30/18 |
| 2018 | 317,089,018 | 0.5675 | 1,799,480 | 1,756,293 | 97.6% | 9/30/19 |
| 2019 | 331,575,995 | 0.5275 | 1,749,063 | 1,752,840 | 100.22% | 9/30/20 |
| 2020 | 339,046,009 | 0.4975 | 1,686,754 | 1,661,453 | 98.5% | 3/01/21 |

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.

(b) Represents actual tax levy, excluding any adjustments by the Appraisal District, as of the date hereof.

TAX ROLL INFORMATION . . . The District’s appraised value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES – Valuation of Property for Taxation”). The following represents the composition of property comprising the 2018, 2019 and 2020 Certified Taxable Appraised Valuations.

| | 2018 Certified Taxable <u>Appraised Valuation</u> | 2019 Certified Taxable <u>Appraised Valuation</u> | 2020 Certified Taxable <u>Appraised Valuation</u> |
|---------------------------------|--|--|--|
| Land and Improvements | \$ 333,217,056 | \$ 341,337,182 | \$ 161,534,753 |
| Exemptions | <u>16,128,038</u> | <u>9,761,187</u> | <u>122,488,744</u> |
| Net Taxable Appraised Valuation | <u>\$ 317,089,018</u> | <u>\$ 331,575,995</u> | <u>\$ 339,046,009</u> |

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PRINCIPAL TAXPAYERS . . . The following table represents the principal taxpayers, the taxable appraised value of such property, and such property's appraised value as a percentage of the 2020 Certified Taxable Assessed Valuation. The 2020 Certified Taxable Assessed Valuation is subject to protest, which could result in changes to the principal taxpayers lists.

| Name of Taxpayer | 2020 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|--------------------------------|---------------------------------------|---|
| Rough Hollow Yacht Club Ltd.* | \$ 3,962,368 | 1.17% |
| RH Lakeway Development Ltd.* | 2,487,567 | 0.73% |
| Lowe, John E. & Susan D. | 2,111,250 | 0.62% |
| Logson, Paige | 2,069,296 | 0.61% |
| Peterson, Brice A. & Dianne V. | 1,957,035 | 0.58% |
| Eklund, Michael & Shannon | 1,942,265 | 0.57% |
| Holm, Marcus Wilbert | 1,900,000 | 0.56% |
| Doan, Ellis D. & Ziba Rezaee | 1,883,304 | 0.56% |
| Jackson Family Revocable Trust | 1,831,900 | 0.54% |
| Card, Douglas J. & Cindy M. | 1,798,700 | 0.53% |
| | <u>\$ 21,943,685</u> | <u>6.47%</u> |

*The Developer and entities affiliated with the Developer. See "THE DEVELOPER – Description of the Developer" and "INVESTMENT CONSIDERATIONS – Dependence on Major Taxpayers and the Developer" and "– Housing Market Volatility."

TAX ADEQUACY FOR DEBT SERVICE . . . The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2020 Certified Taxable Assessed Valuation as provided by the Travis Central Appraisal District of \$339,046,009. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the debt of the District when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-seven and a half percent (97.5%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "DEBT SERVICE REQUIREMENTS."

| | |
|---|-----------------------------|
| Average Annual Debt Service Requirement (2021-2039) | \$ 1,026,387 ^(a) |
| \$0.3105 Tax Rate on 2020 Certified Taxable Assessed Valuation at 97.5% collection..... | \$ 1,026,419 |
| Maximum Annual Debt Service Requirement (2030)..... | \$ 1,242,844 ^(a) |
| \$0.3760 Tax Rate on 2020 Certified Taxable Assessed Valuation at 97.5% collection..... | \$ 1,242,943 |

(a) Includes the Bonds and excludes the Refunded Bonds.

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TAXING PROCEDURES

AUTHORITY TO LEVY TAXES . . . The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system. See “TAX DATA – Maintenance Tax.”

PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT . . . The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development, associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District is authorized by the statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligations to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of taxable assessed value depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of person 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of the first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State 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 may be considered each year, but it must be adopted by July 1. The District has never adopted a general homestead exemption.

Tax Abatement: Williamson County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction 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 in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

Freeport Goods and Goods-in-Transit Exemption: Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue

to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for “goods-in-transit,” which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods are exempt from taxation by the District; however, pursuant to a resolution dated August 19, 2015, the District has elected to continue to tax goods-in-transit.

Temporary Exemption for Qualified Property Damaged by a 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 of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established by 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. There is currently no judicial precedent for how the statute will be applied but Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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

VALUATION OF PROPERTY FOR TAXATION . . . Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business.

Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

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

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

LEVY AND COLLECTION OF TAXES . . . The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older 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.

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

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

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

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

maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

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

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS – Tax Collection Limitations and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

GENERAL . . . The Bonds are obligations solely of the District and are not obligations of the City of Lakeway, the Lake Travis Independent School District, Travis County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or, in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "INVESTMENT CONSIDERATIONS – Tax Collections Limitations and Foreclosure Remedies." The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that taxable property within the District will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

INFECTIOUS DISEASE OUTBREAK (COVID-19) . . . The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in the State (collectively, the "disaster declarations"). Under State law, the proclamation of a state of disaster by the Governor may not continue for more than 30 days unless renewed by the Governor. The Governor has renewed this declaration monthly, most recently on March 6, 2021. On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-08 on March 19, 2020, which, among other things, prohibits social gatherings of more than 10 people and the closure of schools throughout the state through May 4, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. In addition, Travis County, within which the District is located, has issued "stay home" orders for most citizens except when engaged in specified essential businesses and government functions. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within the State. On March 2, 2021, the Governor issued Executive Order GA-34, effective March 10, 2021, rescinding Executive Orders GA-17, GA-25, GA-29, GA-31, and superseding GA-32, but not GA-10 or GA-13, rescinding all COVID-19 related operating limits for any business or other establishments, as well as the state-imposed requirement to wear a face covering, in counties not located in an

area with high hospitalizations (meaning any trauma service area that has had seven consecutive days in which the number of COVID-19 hospitalized patients as a percentage of total hospital capacity exceeds 15%). Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>.

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

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

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

FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS

Economic Factors and Interest Rates: A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots (i.e., 19 lots are owned by individuals or homebuilders and are available for home construction with the exception of one lot owned by the Developer but under contract for sale). The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics and prospects of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values and thus increase the rate of taxation in the District.

Interest rates and the availability of mortgage and development funding have a direct impact on construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete homebuilding activities within the District on the remaining 19 developed lots. In addition, although located approximately 20 miles northwest of the central downtown business district of the City of Austin, the growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economies. See "Regional Economics" below.

Regional Economics: The District is located approximately 20 miles northwest of the central downtown business district of the City of Austin and lies partially within the extraterritorial jurisdiction but substantially within the corporate limits of the City of Lakeway and wholly within the boundaries of the Lake Travis Independent School District. The District is located on the west side of Farm to Market Road 620 with access from Lakeway Boulevard and State Highway 71. See "Maximum Impact on District Tax Rates" below.

Developer under No Obligation to the District: The District is dependent upon the Developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what affect the future financial condition of either, if any, such financial conditions may have on their ability to pay taxes. See "THE DEVELOPER" and "TAX DATA – Principal Taxpayers."

DROUGHT CONDITIONS . . . Central Texas, like other areas of the State, is subject to drought conditions. The District receives its raw water supply from the Lower Colorado River Authority and has been allocated a sufficient raw water supply for full build-out of the District; however, in a drought, this raw water supply could be restricted or curtailed. Treated water services to the District are currently provided in amounts sufficient to service the residents of the District; however, if drought conditions emerge, the available water supplies as well as water usage, District revenues, expenses and rates could be impacted. Travis County MUD No. 12, as the managing district, has filed a petition appealing the West Travis County Public Utility Agency's rate methodology, which is being amended to include a claim relating to the Drought Surcharge Fee. See "WATER SUPPLIES, WATER SERVICES AND PENDING MATTERS." The District is also closely situated to Lake Travis and low lake levels due to drought conditions could impact the marketability of lots and homes within the District as well as the assessed valuation of such lots and homes.

MAXIMUM IMPACT ON DISTRICT TAX RATES . . . Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2020 Certified Taxable Assessed Valuation is \$339,046,009. After issuance of the Bonds, the maximum debt service requirement will be \$1,242,844 (2030), and the average annual debt service requirement will be \$1,026,387

(2021-2039, inclusive). Assuming no increase or decrease from the 2020 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.3760 and \$0.3105 per \$100 appraised valuation at a ninety-seven and a half percent (97.5%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners.

DEPENDENCE ON MAJOR TAXPAYERS AND THE DEVELOPER . . . The ten principal taxpayers in the District represented \$21,943,685 or 6.47% of the District's 2020 Certified Taxable Assessed Valuation of \$339,046,009. The Developer and related entities represent \$6,449,935 or 1.90% of such value and homeowners represent the majority of other taxpayers in the District. If the Developer and homebuilders were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

NO UNDEVELOPED ACREAGE . . . All developable acreage within the District has been developed. See "THE DISTRICT – Land Use."

DEVELOPMENT AND HOME CONSTRUCTION IN THE DISTRICT . . . As of January 25, 2021, approximately 19 lots within the District remained vacant, including one owned by the Developer. Failure of the Developer or homebuilders to construct taxable improvements on developed lots could result in an increase in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and other tax-supported debt of the District. Future increases in value will result primarily from the construction of homes by builders. See "Maximum Impact on District Tax Rates" above.

TAX COLLECTIONS LIMITATIONS AND FORECLOSURE REMEDIES . . . The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under State law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt" and "– Overlapping Taxes"), 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 and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes 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.

REGISTERED OWNERS' REMEDIES . . . Remedies available to Registered Owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Order are limited. Although state law and the Bond Order provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. State law and the Bond Order do not provide for acceleration of maturity of the Bonds. Additionally, the Bond Order does not appoint a trustee to protect the interests of the Registered Owners or any other additional remedy in the event of a default by the District and, consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. See "THE BONDS – Remedies in Event of Default."

Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights of the Registered Owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors' rights generally or by a State statute reasonably required to attain an important public purpose. See "Bankruptcy Limitation to Registered Owners' Rights" below.

BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS . . . The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. State law requires a municipal utility district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

A district may not be forced into bankruptcy involuntarily.

BOND INSURANCE RISKS . . . In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any earlier due date of such principal by reason of mandatory or optional redemption, 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 redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds which is recovered by the District from the owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such redemption by the District 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 that the Paying Agent exercises and the Bond Insurer's consent may be required in connection with amendments to the Bond Order.

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 by the Paying Agent pursuant to the Bond Order. 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.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of the Bond Insurer to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

FUTURE DEBT . . . The District has the right to issue obligations other than the Bonds, including bonds, tax anticipation notes, bond anticipation notes, and refunding bonds and notes and to borrow for any valid corporate purpose. The District does not currently owe the Developer for eligible facilities constructed to date and does not anticipate future bond issuance, although the District reserves the right to issue bonds in the future. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is also authorized to issue bonds to refund or redeem its outstanding debt. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of certain types of additional bonds and obligations are subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

ENVIRONMENTAL REGULATION . . . Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution;
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District's

water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Water Supply & Discharge Issues. Water supply and discharge regulations that the District may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and the EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "water of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile in January 2018, the EPA and SACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court of the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the State of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of "water of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and two general permits for stormwater discharges associated with construction activities and municipal

separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and/or a stormwater management plan. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

STORM WATER QUALITY. . . . Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and recently adopted two general permits for stormwater discharges associated with construction activities and municipal separate storm sewer systems effective August 13, 2007. The District may be potentially subject to stormwater discharge permitting requirements under each of these general permitting programs. Moreover, the District may be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans and in connection with the installation or performance of best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

MARKETABILITY OF THE BONDS . . . The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds 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 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 issuers as such bonds are more generally bought, sold or traded in the secondary market. Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

DEMAND FOR AND FLUCTUATION OF ASSESSED VALUATION OF CERTAIN HOUSING PRODUCTS . . . As reflected in “THE DEVELOPER – Description of Developer” herein, the housing product completed in the District consists of single-family homes and detached duplex units/patio homes with anticipated prices ranging from \$280,000 to over \$2,350,000. Due to the price ranges of the housing within the District, the demand and fluctuation of assessed valuation for such housing product may be more adversely affected by economic conditions than other lower cost housing products within the Austin area. Due to the higher than normal average home values within the District, there is a greater likelihood that homeowners will annually challenge TCAD’s appraisals.

NO REQUIREMENT TO BUILD ON DEVELOPED LOTS . . . There is currently no requirement that individuals or other purchasers of developed lots within the District commence or complete construction of improvements within any particular time period.

Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

CONTINUING COMPLIANCE WITH CERTAIN COVENANTS . . . Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

HOUSING MARKET VOLATILITY . . . Future disruption in the housing market and related volatility in the financial markets could lead to a significant number of foreclosures on single-family homes.

The District can neither predict future conditions in the housing or financial markets nor provide any prediction as to the likelihood or number of future home foreclosures within the District.

ANNEXATION . . . As originally created, the District was located within the extraterritorial jurisdiction of the City of Lakeway (the “City”). The Resolution adopted by the City Council of the City on August 17, 1998, consenting to the creation of the District, required that the District consent to the City’s annexation of less than all of the land within the District. The City has taken action to annex portions of the District in phases as development occurs. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council. If an entire district is annexed by a city, the annexing city is required to assume all debt obligations of the district; however, based on the City’s past practice and the consent resolution, the City may not intend to annex the entire District and assume its outstanding debt. The District makes no representation as to whether the City will continue to annex portions of the District or whether the City will ever annex the entire District and assume the District’s outstanding debt and/or dissolve the District.

Additionally, the Texas Legislature enacted significant changes to annexation laws by passing Senate Bill 6 during the 85th Texas Legislature First Special Session and House Bill 347 during the 86th Texas Legislature Regular Session (the “Annexation Laws”).

Pursuant to changes in general law made by these bills, the City may annex portions of the District within the City's extraterritorial jurisdiction only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the creation. Changes implemented by the Annexation Laws could interfere with future efforts of the City to annex land within the District. If a municipal utility district is annexed, the municipality must assume the assets, functions, and obligations of the District, including outstanding bonds, and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

TAX EXEMPT PROPERTY STRATEGIC HOUSING FINANCE CORPORATION OF TRAVIS COUNTY . . . There is the potential for property within the District to be acquired by the Strategic Housing Finance Corporation of Travis County ("SHFC"), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the "Texas Housing Finance Corporations Act"). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty-nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax exempt, therefore during the thirty-nine (39) month term of the lease, during which SHFC owns the home, that property is removed from the tax rolls of the District. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax exempt indefinitely. Presently, there are no homes within the District that are owned by SHFC and have been removed from the tax rolls. Because the SHFC program is between itself and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

FUTURE AND PROPOSED TAX LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

STATE LEGISLATIVE ISSUES . . . The State Legislature, operating under the biennial system, convenes its regular session at noon on the second Tuesday in January of odd-numbered years. The maximum duration of a regular session is 140 days. The 87th regular legislative session convened on January 12, 2021 and will conclude on May 31, 2021. Under the Texas Constitution, the Governor has the authority to call additional special sessions of the State Legislature at any time, each for a duration of no more than thirty days, to address only those subjects designated by the Governor. While in session, the State Legislature may consider bills which could have a direct impact on the District. The District makes no representations or predictions with respect to whether the Governor will exercise his authority under the Texas Constitution to call additional special sessions of the State Legislature or concerning the substance or effect of any legislation that may be proposed and ultimately passed while the State Legislature is in session.

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LEGAL MATTERS

LEGAL PROCEEDINGS . . . The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. See “APPENDIX A - Form of Bond Counsel Opinion.” Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions “SALE AND DISTRIBUTION OF BONDS – Securities Laws,” “PLAN OF FINANCING – Refunded Bonds,” “THE BONDS” (except for the subcaptions “Book-Entry-Only System,” “DTC Redemption Provisions,” “Payment Record” and “Remedies in Event of Default”), “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “Compliance with Prior Undertakings”) to determine that the information relating to the Bonds and the Bond Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

NO-LITIGATION CERTIFICATE . . . The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, 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 District, or the title of the officers thereof to their respective offices, and that no additional 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.

INVESTMENTS

The District invests its funds in investments authorized by State law in accordance with investment policies approved by the District Council. Both State law and the District’s investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under State law, the District is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective 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) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District’s custodian of the banking deposits issued for the District’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the “SEC”) and operating under

SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than ten (10) years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Political subdivisions such as the District are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the District Council detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the District Council.

ADDITIONAL PROVISIONS . . . Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TAX MATTERS

OPINION . . . On the Date of Initial Delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") for Federal income tax purposes interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX A – Form of Bond Counsel's Opinion."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith and (c) the Sufficiency Certificate of Specialized Public Finance Inc. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an

audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bonds, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments and payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering 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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of redemption, sale or other taxable disposition of such Original issue Discount Bonds prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original issue Discount Bond in the hands of such owner (adjusted upward by the portion of the Original Issue Discount allocable to the period for which such Original issue Discount Bond was held by such initial owner) is includable in gross income.

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

The federal income tax consequences of the purchase, ownership, 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 of federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligation, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

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 District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District. 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 . . . Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this 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 District 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.

CONSULTANTS . . . In approving this Official Statement the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by the Travis County Tax Assessor/Collector's office and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" has been provided by Carlson, Brigrance & Doering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Developer: The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the sections captioned "THE DEVELOPER" (except for the subcaption "Role of a Developer") has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

Auditor: The information contained in this Official Statement relating to the financial information of the District generally and, in particular, the information in APPENDIX B has been provided by the Auditor and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), through its Electronic Municipal Markets Access ("EMMA") system, where said information will be available to the general public, without charge, at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually through EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "DEBT SERVICE REQUIREMENTS" (excluding information related to overlapping debt) and "TAX DATA" (excluding information related to tax adequacy for debt service) and in APPENDIX B if such audited financial statements as provided in APPENDIX B are then available. The District will update and provide this information to the MSRB within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements of the District, if the District commissions an audit and it is completed by the required time. If the audit of such financial statements is not complete within twelve months after any such fiscal year end, then the District shall file unaudited financial statements for the applicable fiscal year to the MSRB within such twelve-month period, and file audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to Texas law or regulation.

The District's fiscal year end is March 31. Accordingly, it must provide updated information by September 30 each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of

default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Bond Order make any provision for debt service reserve or a trustee.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the exiting governing body and officials or officers of the District in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

For the purposes of the events described in clauses (15) and (16) of the immediately preceding paragraph, the term “Financial Obligation” is defined in the Bond Order to mean 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 by the Rule)) has been provided to the MSRB consistent with the Rule. The Bond Order further provides that the District intends the words used in such clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the 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 District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Order if the United States Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

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MISCELLANEOUS

RATING . . . The Bonds have been rated “AA” by S&P Global Ratings (“S&P”) by virtue of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District are rated “A” by S&P without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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.

/s/ J.J. MINAHAN, JR.

President, Board of Directors

Travis County Municipal Utility District No. 11

ATTEST:

/s/ DAVID COX

Secretary, Board of Directors

Travis County Municipal Utility District No. 11

SCHEDULE I - SCHEDULE OF REFUNDED BONDS

| Unlimited Tax Refunding Bonds, Series 2014 | | | |
|---|---------|-----------|--------|
| Amount | | Maturity | Coupon |
| \$ | 330,000 | 8/15/2023 | 3.000% |
| | 345,000 | 8/15/2024 | 3.000% |
| | 355,000 | 8/15/2025 | 3.250% |
| | 370,000 | 8/15/2026 | 3.250% |
| | 385,000 | 8/15/2027 | 4.000% |
| | 405,000 | 8/15/2028 | 4.000% |
| | 425,000 | 8/15/2029 | 4.000% |
| | 440,000 | 8/15/2030 | 3.750% |
| | 460,000 | 8/15/2031 | 3.750% |
| | 480,000 | 8/15/2032 | 3.875% |
| \$ 3,995,000 | | | |

Redemption Date: 8/15/2021
Redemption Price: 100%

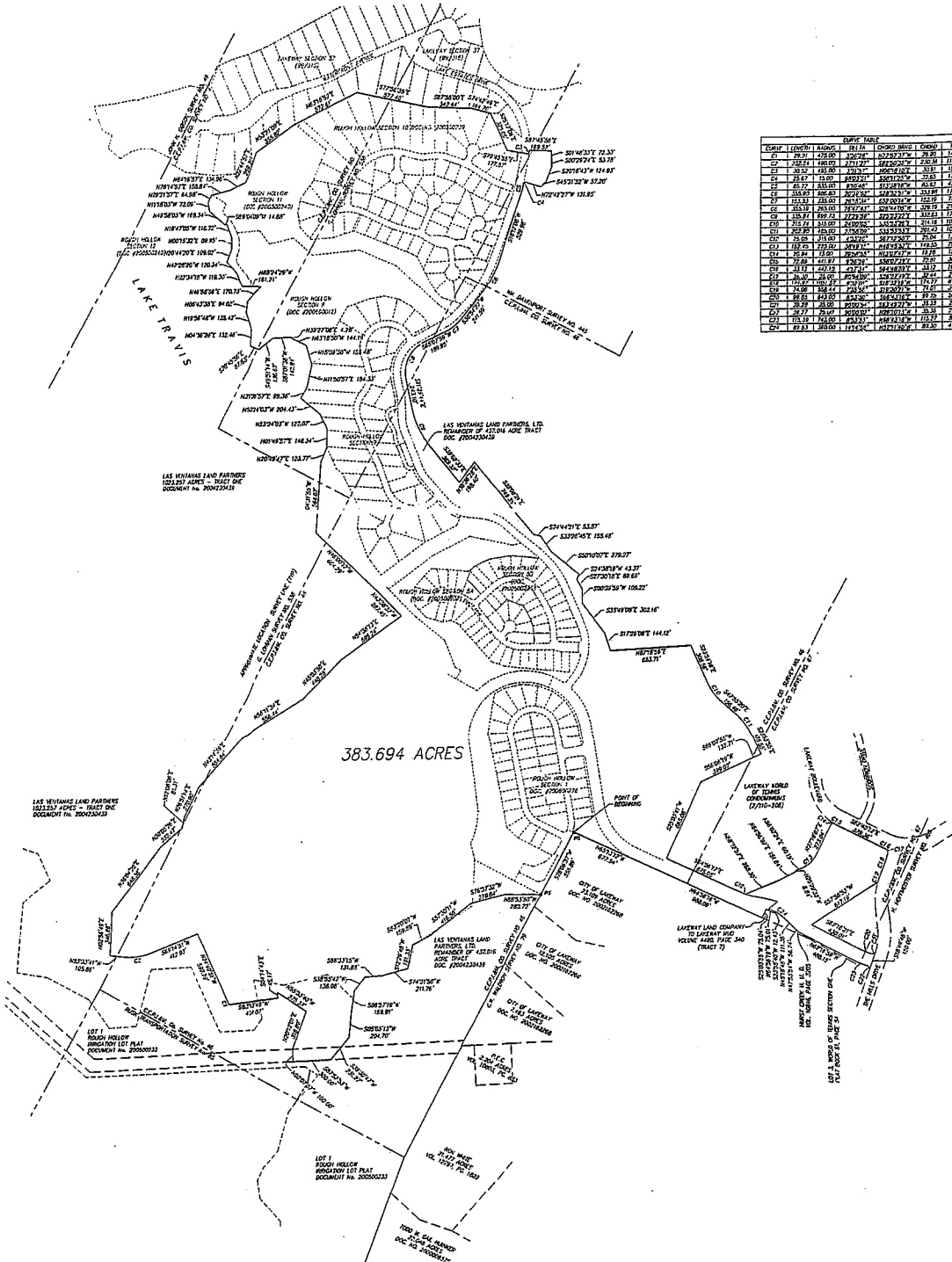
| Unlimited Tax Bonds, Series 2014 | | | |
|----------------------------------|---------|--------------------------|--------|
| Amount | | Maturity | Coupon |
| \$ | 100,000 | 8/15/2023 | 2.750% |
| \$ | 100,000 | 8/15/2024 | 3.000% |
| | 100,000 | 8/15/2025 | 3.000% |
| | 100,000 | 8/15/2026 ⁽¹⁾ | 3.000% |
| | 100,000 | 8/15/2027 ⁽¹⁾ | 3.000% |
| | 100,000 | 8/15/2028 ⁽¹⁾ | 3.000% |
| | 100,000 | 8/15/2029 ⁽²⁾ | 3.125% |
| | 100,000 | 8/15/2030 ⁽²⁾ | 3.125% |
| | 100,000 | 8/15/2031 | 3.125% |
| | 100,000 | 8/15/2032 | 3.250% |
| | 350,000 | 8/15/2033 | 3.250% |
| | 350,000 | 8/15/2034 | 3.375% |
| | 350,000 | 8/15/2035 ⁽³⁾ | 4.000% |
| | 320,000 | 8/15/2036 ⁽³⁾ | 4.000% |
| | 330,000 | 8/15/2037 ⁽⁴⁾ | 4.000% |
| | 345,000 | 8/15/2038 ⁽⁴⁾ | 4.000% |
| | 365,000 | 8/15/2039 ⁽⁴⁾ | 4.000% |
| \$ 3,410,000 | | | |

Redemption Date: 8/15/2021
Redemption Price: 100%

- (1) Term Bonds maturing on August 15, 2028.
(2) Term Bonds maturing on August 15, 2030.
(3) Term Bonds maturing on August 15, 2036.
(4) Term Bonds maturing on August 15, 2039.

AERIAL BOUNDARY MAP

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| LINE | LENGTH | BEARING | AREA | LINE | LENGTH | BEARING | AREA |
|------|--------|-----------------|------|------|--------|-----------------|------|
| 1 | 10.00 | N 89° 59' 59" E | 0.00 | 11 | 10.00 | N 89° 59' 59" E | 0.00 |
| 2 | 10.00 | N 89° 59' 59" E | 0.00 | 12 | 10.00 | N 89° 59' 59" E | 0.00 |
| 3 | 10.00 | N 89° 59' 59" E | 0.00 | 13 | 10.00 | N 89° 59' 59" E | 0.00 |
| 4 | 10.00 | N 89° 59' 59" E | 0.00 | 14 | 10.00 | N 89° 59' 59" E | 0.00 |
| 5 | 10.00 | N 89° 59' 59" E | 0.00 | 15 | 10.00 | N 89° 59' 59" E | 0.00 |
| 6 | 10.00 | N 89° 59' 59" E | 0.00 | 16 | 10.00 | N 89° 59' 59" E | 0.00 |
| 7 | 10.00 | N 89° 59' 59" E | 0.00 | 17 | 10.00 | N 89° 59' 59" E | 0.00 |
| 8 | 10.00 | N 89° 59' 59" E | 0.00 | 18 | 10.00 | N 89° 59' 59" E | 0.00 |
| 9 | 10.00 | N 89° 59' 59" E | 0.00 | 19 | 10.00 | N 89° 59' 59" E | 0.00 |
| 10 | 10.00 | N 89° 59' 59" E | 0.00 | 20 | 10.00 | N 89° 59' 59" E | 0.00 |
| 21 | 10.00 | N 89° 59' 59" E | 0.00 | 22 | 10.00 | N 89° 59' 59" E | 0.00 |
| 23 | 10.00 | N 89° 59' 59" E | 0.00 | 24 | 10.00 | N 89° 59' 59" E | 0.00 |
| 25 | 10.00 | N 89° 59' 59" E | 0.00 | 26 | 10.00 | N 89° 59' 59" E | 0.00 |
| 27 | 10.00 | N 89° 59' 59" E | 0.00 | 28 | 10.00 | N 89° 59' 59" E | 0.00 |
| 29 | 10.00 | N 89° 59' 59" E | 0.00 | 30 | 10.00 | N 89° 59' 59" E | 0.00 |
| 31 | 10.00 | N 89° 59' 59" E | 0.00 | 32 | 10.00 | N 89° 59' 59" E | 0.00 |
| 33 | 10.00 | N 89° 59' 59" E | 0.00 | 34 | 10.00 | N 89° 59' 59" E | 0.00 |
| 35 | 10.00 | N 89° 59' 59" E | 0.00 | 36 | 10.00 | N 89° 59' 59" E | 0.00 |
| 37 | 10.00 | N 89° 59' 59" E | 0.00 | 38 | 10.00 | N 89° 59' 59" E | 0.00 |
| 39 | 10.00 | N 89° 59' 59" E | 0.00 | 40 | 10.00 | N 89° 59' 59" E | 0.00 |
| 41 | 10.00 | N 89° 59' 59" E | 0.00 | 42 | 10.00 | N 89° 59' 59" E | 0.00 |
| 43 | 10.00 | N 89° 59' 59" E | 0.00 | 44 | 10.00 | N 89° 59' 59" E | 0.00 |
| 45 | 10.00 | N 89° 59' 59" E | 0.00 | 46 | 10.00 | N 89° 59' 59" E | 0.00 |
| 47 | 10.00 | N 89° 59' 59" E | 0.00 | 48 | 10.00 | N 89° 59' 59" E | 0.00 |
| 49 | 10.00 | N 89° 59' 59" E | 0.00 | 50 | 10.00 | N 89° 59' 59" E | 0.00 |
| 51 | 10.00 | N 89° 59' 59" E | 0.00 | 52 | 10.00 | N 89° 59' 59" E | 0.00 |
| 53 | 10.00 | N 89° 59' 59" E | 0.00 | 54 | 10.00 | N 89° 59' 59" E | 0.00 |
| 55 | 10.00 | N 89° 59' 59" E | 0.00 | 56 | 10.00 | N 89° 59' 59" E | 0.00 |
| 57 | 10.00 | N 89° 59' 59" E | 0.00 | 58 | 10.00 | N 89° 59' 59" E | 0.00 |
| 59 | 10.00 | N 89° 59' 59" E | 0.00 | 60 | 10.00 | N 89° 59' 59" E | 0.00 |
| 61 | 10.00 | N 89° 59' 59" E | 0.00 | 62 | 10.00 | N 89° 59' 59" E | 0.00 |
| 63 | 10.00 | N 89° 59' 59" E | 0.00 | 64 | 10.00 | N 89° 59' 59" E | 0.00 |
| 65 | 10.00 | N 89° 59' 59" E | 0.00 | 66 | 10.00 | N 89° 59' 59" E | 0.00 |
| 67 | 10.00 | N 89° 59' 59" E | 0.00 | 68 | 10.00 | N 89° 59' 59" E | 0.00 |
| 69 | 10.00 | N 89° 59' 59" E | 0.00 | 70 | 10.00 | N 89° 59' 59" E | 0.00 |
| 71 | 10.00 | N 89° 59' 59" E | 0.00 | 72 | 10.00 | N 89° 59' 59" E | 0.00 |
| 73 | 10.00 | N 89° 59' 59" E | 0.00 | 74 | 10.00 | N 89° 59' 59" E | 0.00 |
| 75 | 10.00 | N 89° 59' 59" E | 0.00 | 76 | 10.00 | N 89° 59' 59" E | 0.00 |
| 77 | 10.00 | N 89° 59' 59" E | 0.00 | 78 | 10.00 | N 89° 59' 59" E | 0.00 |
| 79 | 10.00 | N 89° 59' 59" E | 0.00 | 80 | 10.00 | N 89° 59' 59" E | 0.00 |
| 81 | 10.00 | N 89° 59' 59" E | 0.00 | 82 | 10.00 | N 89° 59' 59" E | 0.00 |
| 83 | 10.00 | N 89° 59' 59" E | 0.00 | 84 | 10.00 | N 89° 59' 59" E | 0.00 |
| 85 | 10.00 | N 89° 59' 59" E | 0.00 | 86 | 10.00 | N 89° 59' 59" E | 0.00 |
| 87 | 10.00 | N 89° 59' 59" E | 0.00 | 88 | 10.00 | N 89° 59' 59" E | 0.00 |
| 89 | 10.00 | N 89° 59' 59" E | 0.00 | 90 | 10.00 | N 89° 59' 59" E | 0.00 |
| 91 | 10.00 | N 89° 59' 59" E | 0.00 | 92 | 10.00 | N 89° 59' 59" E | 0.00 |
| 93 | 10.00 | N 89° 59' 59" E | 0.00 | 94 | 10.00 | N 89° 59' 59" E | 0.00 |
| 95 | 10.00 | N 89° 59' 59" E | 0.00 | 96 | 10.00 | N 89° 59' 59" E | 0.00 |
| 97 | 10.00 | N 89° 59' 59" E | 0.00 | 98 | 10.00 | N 89° 59' 59" E | 0.00 |
| 99 | 10.00 | N 89° 59' 59" E | 0.00 | 100 | 10.00 | N 89° 59' 59" E | 0.00 |

1. I, J. KENNETH HOGAN, A REGISTERED PROFESSIONAL LAND SURVEYOR, DO HEREBY CERTIFY THAT THIS MAP ACCURATELY DESCRIBES THE BOUNDARIES OF TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11. WITNESS MY HAND AND SEAL THIS 11 DAY OF JULY, 2007.

LEGEND:
 0 MS = SET 1/2" PPH 100



J. KENNETH HOGAN, A REGISTERED PROFESSIONAL LAND SURVEYOR, DO HEREBY CERTIFY THAT THIS MAP ACCURATELY DESCRIBES THE BOUNDARIES OF TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11. WITNESS MY HAND AND SEAL THIS 11 DAY OF JULY, 2007.

TRAVIS COUNTY MUD No. 11
 DATED: JULY 9, 2007 SCALE: 1" = 400'
 RANDALL JONES & ASSOCIATES ENGINEERING, INC.
 1212 E. BRANER LANE, AUSTIN, TEXAS 78753
 (512) 836-4793 FAX: (512) 836-4817
 RJ SURVEYING & ASSOCIATES, INC.
 1212 E. BRANER LANE, AUSTIN, TEXAS 78753
 (512) 836-4793 FAX: (512) 836-4817

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PHOTOGRAPHS OF THE DISTRICT

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APPENDIX A

FORM OF BOND COUNSEL'S OPINION

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*[An opinion in substantially the following form will be delivered by McCall,
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the
Bonds, assuming no material changes in facts or law.]*

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
UNLIMITED TAX REFUNDING BONDS, SERIES 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$7,695,000**

AS BOND COUNSEL FOR TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on March 4, 2021, authorizing the issuance of the Bonds and the pricing certificate executed by the pricing officer as designated in the order (collectively, the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

THE DISTRICT reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



IT IS FURTHER OUR OPINION that, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Sufficiency Certificate of Specialized Public Finance Inc. and certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain representations and covenants, regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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 Internal Revenue Service (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 District as the taxpayer. We observe that the District has covenanted 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.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District 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 exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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APPENDIX B

AUDITED FINANCIAL STATEMENT OF THE DISTRICT

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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Board of Directors
Travis County Municipal
Utility District No. 11
Travis County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Travis County Municipal Utility District No. 11 (the "District"), as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the 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 District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are 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 Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Austin, Texas

August 6, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2020

In accordance with Governmental Accounting Standards Board Statement No. 34 (“GASB 34”), the management of Travis County Municipal Utility District No. 11 (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended March 31, 2020. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the District’s financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* As of March 31, 2020, the nonspendable and the unassigned portions of the General Fund fund balance totaled \$3,321,741, a decrease of \$1,419,536 from the previous fiscal year. General Fund revenues decreased from \$1,633,922 in the previous year to \$1,627,586 in the current year. During the current fiscal year, the General Fund transferred \$1,528,050 and \$48,071 to the Debt Service Fund and the Capital Projects Fund, respectively.
- *Debt Service Fund:* Fund balance reserved for debt service increased from \$2,177,406 in the previous year to \$2,251,375 for the current year.
- *Capital Projects Fund:* Fund balance reserved for capital projects decreased from \$121,837 in the previous year to zero for the current year after expending all remaining surplus funds from previously issued bonds to purchase infrastructure and reimburse the developer for prior operating expenses.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$737,470 for the year ended March 31, 2020. Net position increased from \$2,270,540 to \$3,008,010.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality, dated June 18, 1999 and confirmed by an election held within the District on May 6, 2000. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage facilities to serve approximately 383.53 acres within its boundaries, all of which lie within Travis County. The District lies partially within the incorporated limits and partially within the extraterritorial jurisdiction of the City of Lakeway.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2020

USING THIS ANNUAL REPORT

This annual report consists of five parts:

1. *Management’s Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the “Governmental Funds Total” column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled “Governmental Funds Total”) that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District’s net position will indicate financial health.

The *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* includes a column (titled “Governmental Funds Total”) that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances*.

The *Required Supplementary Information* presents a comparison statement between the District’s adopted budget and its actual results.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 **MANAGEMENT'S DISCUSSION AND ANALYSIS** **FOR THE YEAR ENDED** **MARCH 31, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

| | Governmental Activities | | Change Increase (Decrease) |
|----------------------------------|----------------------------|----------------------|----------------------------------|
| | 2020 | 2019 | |
| Current and other assets | \$ 6,178,102 | \$ 7,390,303 | \$ (1,212,201) |
| Capital and non-current assets | 13,258,431 | 13,290,952 | (32,521) |
| Total Assets | <u>\$ 19,436,533</u> | <u>\$ 20,681,255</u> | <u>\$ (1,244,722)</u> |
| Deferred outflows of resources | <u>\$ 535,919</u> | <u>\$ 577,427</u> | <u>\$ (41,508)</u> |
| Current liabilities | \$ 1,344,126 | \$ 1,067,264 | \$ 276,862 |
| Long-term liabilities | 15,620,316 | 17,920,878 | (2,300,562) |
| Total Liabilities | <u>\$ 16,964,442</u> | <u>\$ 18,988,142</u> | <u>\$ (2,023,700)</u> |
| Net investment in capital assets | \$ (2,530,966) | \$ (4,555,513) | \$ 2,024,547 |
| Restricted | 2,208,069 | 2,138,106 | 69,963 |
| Unrestricted | 3,330,907 | 4,687,947 | (1,357,040) |
| Total Net Position | <u>\$ 3,008,010</u> | <u>\$ 2,270,540</u> | <u>\$ 737,470</u> |

The District's combined net position increased by \$737,470 for the year ended March 31, 2020, to \$3,008,010 from the prior year balance of \$2,270,540. A portion of net position is accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, reflected a surplus balance of \$3,330,907, down by \$1,357,040 from the previous year's balance of \$4,687,947.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 **MANAGEMENT’S DISCUSSION AND ANALYSIS** **FOR THE YEAR ENDED** **MARCH 31, 2020**

Revenues and Expenses:

Summary Statement of Activities

| | Governmental Activities | | Change Increase (Decrease) |
|-------------------------------|----------------------------|---------------------|----------------------------------|
| | 2020 | 2019 | |
| Property taxes | \$ 1,775,383 | \$ 1,816,110 | \$ (40,727) |
| Service account revenues | 999,772 | 956,192 | 43,580 |
| System connection fees | 96,469 | 193,200 | (96,731) |
| Other | 155,631 | 130,468 | 25,163 |
| Total Revenues | \$ 3,027,255 | \$ 3,095,970 | \$ (68,715) |
| Water/wastewater purchases | \$ 671,500 | \$ 572,877 | \$ 98,623 |
| Intake/reservation charges | 4,800 | 4,800 | - |
| Legal fees | 41,890 | 39,795 | 2,095 |
| Management fees | 60,000 | 60,000 | - |
| Bookkeeping/Operations | 84,956 | 79,355 | 5,601 |
| Other | 410,182 | 273,674 | 136,508 |
| Debt Service | 671,756 | 714,894 | (43,138) |
| Depreciation | 309,526 | 306,711 | 2,815 |
| Amortization | 35,175 | 35,175 | - |
| Total Expenses | \$ 2,289,785 | \$ 2,087,281 | \$ 202,504 |
| Change in Net Position | \$ 737,470 | \$ 1,008,689 | \$ (271,219) |
| Beginning Net Position | 2,270,540 | 1,261,851 | 1,008,689 |
| Ending Net Position | \$ 3,008,010 | \$ 2,270,540 | \$ 737,470 |

Revenues were \$3,027,255 for the fiscal year ended March 31, 2020 while expenses were \$2,289,785. Net position increased by \$737,470.

Property tax revenues for the year ended March 31, 2020 totaled \$1,775,383. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2019 tax year (for the fiscal year ended March 31, 2020) were based on current assessed value of \$332,039,236 and a tax rate of \$0.5275 per \$100 of assessed valuation.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 **MANAGEMENT'S DISCUSSION AND ANALYSIS** **FOR THE YEAR ENDED** **MARCH 31, 2020**

Revenues and Expenses (continued):

Property taxes levied for the 2018 tax year (for the fiscal year ended March 31, 2019) were based upon an adjusted assessed value of \$318,498,308 and a tax rate of \$0.5675 per \$100 of assessed valuation. The District's primary revenue sources are property taxes, connection fees and service accounts.

ANALYSIS OF GOVERNMENTAL FUNDS

| | <u>Governmental Funds by Year</u> | | | |
|--|-----------------------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 | 2017 |
| Cash and investments | \$ 5,985,320 | \$ 7,173,480 | \$ 6,475,681 | \$ 5,793,186 |
| Receivables | 209,373 | 233,763 | 277,096 | 353,078 |
| Other | 7,500 | 7,500 | 7,500 | 7,500 |
| Total Assets | <u>\$ 6,202,193</u> | <u>\$ 7,414,743</u> | <u>\$ 6,760,277</u> | <u>\$ 6,153,764</u> |
| Accounts payable | \$ 91,692 | \$ 82,750 | \$ 90,039 | \$ 74,923 |
| Other | 497,358 | 236,677 | 288,023 | 407,275 |
| Total Liabilities | <u>\$ 589,050</u> | <u>\$ 319,427</u> | <u>\$ 378,062</u> | <u>\$ 482,198</u> |
| Deferred Inflows of Resources | \$ 40,027 | \$ 54,796 | \$ 71,610 | \$ 65,656 |
| Nonspendable | \$ 7,500 | \$ 7,500 | \$ 7,500 | \$ 7,500 |
| Restricted | 2,251,375 | 2,299,243 | 2,184,095 | 2,156,215 |
| Unassigned | 3,314,241 | 4,733,777 | 4,119,010 | 3,442,195 |
| Total Fund Balances | <u>\$ 5,573,116</u> | <u>\$ 7,040,520</u> | <u>\$ 6,310,605</u> | <u>\$ 5,605,910</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 6,202,193</u> | <u>\$ 7,414,743</u> | <u>\$ 6,760,277</u> | <u>\$ 6,153,764</u> |

For the year ended March 31, 2020, the District's governmental funds reflect a combined fund balance of \$5,573,116. This fund balance includes a \$1,419,536 decrease in the General Fund fund balance for the year ended March 31, 2020, which is a result of operating transfers of \$1,528,050 and \$48,071 to the Debt Service Fund and Capital Projects Fund, respectively.

The Debt Service Fund reflects a fund balance increase of \$73,969 for the year ended March 31, 2020. The Debt Service Fund remitted bond interest of \$641,471 and principal payments of \$2,215,000, which included the early redemption of \$1,525,000 of previously issued Series 2012 bonds. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Projects Fund purchases the District's infrastructure. The Capital Projects Fund had a \$121,837 decrease in fund balance for the year ended March 31, 2020. During the current fiscal year, the Capital Projects Fund expended all remaining surplus funds from previously issued bonds to reimburse the developer within the District for construction costs associated with water, wastewater and drainage facilities and previously funded operating expenses.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11 **MANAGEMENT’S DISCUSSION AND ANALYSIS** **FOR THE YEAR ENDED** **MARCH 31, 2020**

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs. The Board of Directors adopted an amended budget including revenues of \$1,642,958 as compared to expenditures of \$1,551,204 and other financing uses of \$1,576,121. When comparing actual to budget, the District had a positive variance of \$64,831. More detailed information about the District’s budgetary comparison is presented in the *Required Supplementary Information*.

CAPITAL ASSETS AND INTANGIBLE ASSETS

The District’s governmental activities have invested \$12,838,776 in water, wastewater and drainage infrastructure. The detail of capital assets is reflected in the following schedule:

Summary of Capital Assets, net

| | 3/31/2020 | 3/31/2019 |
|--------------------------------|----------------------|----------------------|
| Capital Assets: | | |
| Water/Wastewater/Drainage | \$ 15,352,552 | \$ 15,040,372 |
| Less: Accumulated Depreciation | (2,513,776) | (2,204,250) |
| Total Net Capital Assets | <u>\$ 12,838,776</u> | <u>\$ 12,836,122</u> |

As of March 31, 2020, the District had intangible assets, net of accumulated amortization, totaling \$419,655.

More detailed information about the District’s capital assets and intangible assets is presented in the *Notes to the Financial Statements*.

LONG TERM DEBT

The District has the following balances outstanding on unlimited tax bonds:

| | Bonds Payable |
|-----------------------|----------------------|
| Series 2012 | \$ 1,570,000 |
| Series 2013 | 3,140,000 |
| Series 2014 | 3,710,000 |
| Series 2014 Refunding | 4,910,000 |
| Series 2016 Refunding | 2,855,000 |
| Total | <u>\$ 16,185,000</u> |

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2020**

LONG TERM DEBT (continued) -

The District owes approximately \$16.2 million to bondholders. During the year ended March 31, 2020, bond interest of \$641,471 and principal payments of \$2,215,000 were remitted to bond holders by the District. Principal payments included the early redemption of \$1,525,000 of Series 2012 bond principal prior to the scheduled maturity dates . The ratio of the District's long-term debt to the total 2019 taxable assessed valuation (\$332,039,236) is 4.9%. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2021 projects a General Fund fund balance increase of \$277,929. Compared to the fiscal year 2020 budget, revenues are expected to decrease by approximately \$57,000 and expenditures are expected to decrease by approximately \$243,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

FINANCIAL STATEMENTS

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2020

| | General Fund | Debt Service Fund | Capital Projects Fund | Governmental Funds Total | Adjustments Note 2 | Government - wide Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|--------------------------------|-----------------------|--|
| <u>ASSETS</u> | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash on deposit | \$ 375,835 | \$ - | \$ - | \$ 375,835 | \$ - | \$ 375,835 |
| Cash equivalent investments | 3,334,019 | 2,275,466 | - | 5,609,485 | - | 5,609,485 |
| Receivables: | | | | | | |
| Service accounts, net of doubtful accounts of \$ -0- | 92,376 | - | - | 92,376 | - | 92,376 |
| Property taxes | 9,166 | 30,861 | - | 40,027 | - | 40,027 |
| Interfund | 24,091 | - | - | 24,091 | (24,091) | - |
| Other | 52,879 | - | - | 52,879 | - | 52,879 |
| Prepaid costs | 7,500 | - | - | 7,500 | - | 7,500 |
| Intangible assets, net of accumulated amortization - | | | | | | |
| Right to receive service | - | - | - | - | 419,655 | 419,655 |
| Capital assets, net of accumulated depreciation - | | | | | | |
| Water, wastewater and drainage facilities | - | - | - | - | 12,838,776 | 12,838,776 |
| TOTAL ASSETS | 3,895,866 | 2,306,327 | - | 6,202,193 | 13,234,340 | 19,436,533 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | | | | |
| Deferred charges on refunding | - | - | - | - | 535,919 | 535,919 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 3,895,866 | \$ 2,306,327 | \$ - | \$ 6,202,193 | 13,770,259 | 19,972,452 |
| <u>LIABILITIES</u> | | | | | | |
| Accounts payable | \$ 47,725 | \$ - | \$ - | \$ 47,725 | \$ - | \$ 47,725 |
| Accrued expenses | 43,967 | - | - | 43,967 | - | 43,967 |
| Accrued interest payable | - | - | - | - | 74,167 | 74,167 |
| Escrow deposit | 10,900 | - | - | 10,900 | - | 10,900 |
| Customer deposits | 157,870 | - | - | 157,870 | - | 157,870 |
| Interfund payables | - | 24,091 | - | 24,091 | (24,091) | - |
| Intergovernmental | 303,726 | - | - | 303,726 | - | 303,726 |
| Unearned revenue | 771 | - | - | 771 | - | 771 |
| Bonds payable: | | | | | | |
| Due within one year | - | - | - | - | 705,000 | 705,000 |
| Due after one year | - | - | - | - | 15,620,316 | 15,620,316 |
| TOTAL LIABILITIES | 564,959 | 24,091 | - | 589,050 | 16,375,392 | 16,964,442 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | | |
| Property taxes | 9,166 | 30,861 | - | 40,027 | (40,027) | - |
| <u>FUND BALANCES</u> | | | | | | |
| Nonspendable - Prepaid costs | 7,500 | - | - | 7,500 | (7,500) | - |
| Restricted for - | | | | | | |
| Debt Service | - | 2,251,375 | - | 2,251,375 | (2,251,375) | - |
| Unassigned | 3,314,241 | - | - | 3,314,241 | (3,314,241) | - |
| TOTAL FUND BALANCES | 3,321,741 | 2,251,375 | - | 5,573,116 | (5,573,116) | - |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 3,895,866 | \$ 2,306,327 | \$ - | \$ 6,202,193 | | |
| <u>NET POSITION</u> | | | | | | |
| Net investment in capital assets | | | | | (2,530,966) | (2,530,966) |
| Restricted for debt service | | | | | 2,208,069 | 2,208,069 |
| Unrestricted | | | | | 3,330,907 | 3,330,907 |
| TOTAL NET POSITION | | | | | \$ 3,008,010 | \$ 3,008,010 |

The accompanying notes are an integral part of this statement.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2020

| | General Fund | Debt Service Fund | Capital Projects Fund | Governmental Funds Total | Adjustments Note 2 | Government - wide Statement of Activities |
|--|---------------------|-------------------------|-----------------------------|--------------------------------|-----------------------|--|
| REVENUES: | | | | | | |
| Property taxes, including penalties | \$ 414,753 | \$ 1,375,399 | \$ - | \$ 1,790,152 | \$ (14,769) | \$ 1,775,383 |
| Service account revenues, including penalties | 999,772 | - | - | 999,772 | - | 999,772 |
| System connection fees | 96,469 | - | - | 96,469 | - | 96,469 |
| Grinder pump fees | 42,000 | - | - | 42,000 | - | 42,000 |
| Interest and other | 74,592 | 37,199 | 1,840 | 113,631 | - | 113,631 |
| TOTAL REVENUES | \$ 1,627,586 | \$ 1,412,598 | \$ 1,840 | \$ 3,042,024 | \$ (14,769) | \$ 3,027,255 |
| EXPENDITURES / EXPENSES: | | | | | | |
| Current: | | | | | | |
| Water/wastewater purchases | 671,500 | - | - | 671,500 | - | 671,500 |
| Intake system charges | 4,800 | - | - | 4,800 | - | 4,800 |
| Repairs and maintenance | 265,316 | - | - | 265,316 | - | 265,316 |
| Inspection/installation fees | 9,852 | - | - | 9,852 | - | 9,852 |
| Grinder pumps | 36,400 | - | - | 36,400 | - | 36,400 |
| Utilities | 4,040 | - | - | 4,040 | - | 4,040 |
| Operation fees | 60,306 | - | - | 60,306 | - | 60,306 |
| Director fees, including payroll taxes | 6,459 | - | - | 6,459 | - | 6,459 |
| Legal fees | 41,890 | - | - | 41,890 | - | 41,890 |
| Audit fees | 12,250 | - | - | 12,250 | - | 12,250 |
| Management fees | 60,000 | - | - | 60,000 | - | 60,000 |
| Engineering fees | 11,185 | - | - | 11,185 | - | 11,185 |
| Bookkeeping fees | 24,650 | - | - | 24,650 | - | 24,650 |
| Other consulting fees | 5,269 | - | - | 5,269 | - | 5,269 |
| Tax appraisal/collection fees | 2,004 | 6,908 | - | 8,912 | - | 8,912 |
| Insurance | 7,562 | - | - | 7,562 | - | 7,562 |
| Legal notices | 419 | - | - | 419 | - | 419 |
| Reimburse prior year operating expenditures | - | - | 93,305 | 93,305 | (65,149) | 28,156 |
| Developer interest | - | - | 9,249 | 9,249 | - | 9,249 |
| Other | 4,113 | 1,000 | - | 5,113 | - | 5,113 |
| Debt service: | | | | | | |
| Bond principal | - | 2,215,000 | - | 2,215,000 | (2,215,000) | - |
| Bond interest | - | 641,471 | - | 641,471 | 27,985 | 669,456 |
| Fiscal agent fees | - | 2,300 | - | 2,300 | - | 2,300 |
| Capital outlay | 242,986 | - | 69,194 | 312,180 | (312,180) | - |
| Depreciation | - | - | - | - | 309,526 | 309,526 |
| Amortization | - | - | - | - | 35,175 | 35,175 |
| TOTAL EXPENDITURES / EXPENSES | 1,471,001 | 2,866,679 | 171,748 | 4,509,428 | (2,219,643) | 2,289,785 |
| Excess / (deficiency) of revenues over / (under) expenditures / expenses | 156,585 | (1,454,081) | (169,908) | (1,467,404) | 2,204,874 | 737,470 |
| OTHER FINANCING SOURCES / (USES) - | | | | | | |
| Operating transfers | (1,576,121) | 1,528,050 | 48,071 | - | - | - |
| TOTAL OTHER FINANCING SOURCES / (USES) | (1,576,121) | 1,528,050 | 48,071 | - | - | - |
| NET CHANGE IN FUND BALANCES | (1,419,536) | 73,969 | (121,837) | (1,467,404) | 1,467,404 | - |
| CHANGE IN NET POSITION | | | | | 737,470 | 737,470 |
| FUND BALANCE / NET POSITION: | | | | | | |
| Beginning of the year | 4,741,277 | 2,177,406 | 121,837 | 7,040,520 | (4,769,980) | 2,270,540 |
| End of the year | <u>\$ 3,321,741</u> | <u>\$ 2,251,375</u> | <u>\$ -</u> | <u>\$ 5,573,116</u> | <u>\$ (2,565,106)</u> | <u>\$ 3,008,010</u> |

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Travis County Municipal Utility District No. 11 (the “District”) relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (“GAAP”) as applied to governmental entities. GAAP for local governments includes those principles prescribed by the Governmental Accounting Standards Board (“GASB”), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity - The District was created, organized and established on June 18, 1999, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District’s elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental “reporting entity” as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB standards which are included in the District’s reporting entity.

Basis of Presentation - Government-wide and Fund Financial Statements - These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Basis of Presentation - Government-wide and Fund Financial Statements (continued) –

The basic financial statements are prepared in conformity with GASB Statement No. 34 and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-wide Statements:** The District's Statement of Net Position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects depreciation and amortization expense on the District's capital and intangible assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

Governmental Fund Types - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, deferred inflows and outflows of resources, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources restricted, committed or assigned for the payment of debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Basis of Presentation - Government-wide and Fund Financial Statements (continued) –

Non-current Governmental Assets and Liabilities - GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

Basis of Accounting

Government-wide Statements - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Fund Financial Statements - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net fund balances. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available).

"Measurable" means that the amount of the transaction can be determined and "available" means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports unearned revenue on its combined balance sheet. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for unearned revenues is removed from the combined balance sheet and revenue is recognized.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Budgets and Budgetary Accounting - An unappropriated budget was adopted on April 4, 2019, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board utilizes the budget as a management tool for planning and cost control purposes. The budget was amended during the fiscal year on February 6, 2020. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be “employees” for federal payroll tax purposes only.

Cash and Cash Equivalents - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer’s Investment Pool, are recorded at amortized cost.

Capital Assets and Intangible Assets - Capital assets, which include water, wastewater and drainage facilities, are reported in the government-wide column in the Statement of Net Position. Intangible assets, which include the right to receive service, are reported in the government-wide column in the Statement of Net Position and are amortized. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at their estimated acquisition value at the time received. Interest incurred during construction of capital facilities is not capitalized.

Capital and intangible assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

| <u>Asset</u> | <u>Years</u> |
|---|---------------------|
| Right to receive service | 20 |
| Water, Wastewater & Drainage Facilities | 5 - 50 |

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

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Long-Term Debt - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Fund Equity - The District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 17 for additional information on those fund balance classifications.

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

Recently Issued Accounting Pronouncements - In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the purpose of which is (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, the cost of assets capitalized and depreciated will no longer include an interest component. Developer interest will instead be shown separately as an expenditure in the fund it was paid from (not combined with capital outlay) and as an expense in the government-wide financial statements. GASB Statement No. 89 is effective for fiscal years beginning after December 15, 2019, though early application is encouraged, and the requirements of this standard are to be applied prospectively. Management has chosen to early implement GASB Statement No. 89 as of and for the fiscal year ended March 31, 2020.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows:

| | | |
|---|------------------|----------------------------|
| Fund Balances - Total Governmental Funds | | \$ 5,573,116 |
| Capital and intangible assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds: | | |
| Capital assets | 15,352,552 | |
| Less: Accumulated depreciation | (2,513,776) | |
| Intangible assets | 703,502 | |
| Less: Accumulated amortization | <u>(283,847)</u> | 13,258,431 |
| Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred inflows of resources for revenues earned but not available. | | 40,027 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | | |
| Bonds payable | (16,185,000) | |
| Issuance premium/discount, net | (140,316) | |
| Deferred charges, net of accumulated amortization | 535,919 | |
| Accrued interest | <u>(74,167)</u> | <u>(15,863,564)</u> |
| Net Position - Governmental Activities | | <u><u>\$ 3,008,010</u></u> |

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

| | | |
|--|-----------------|--------------------------|
| Net Change in Fund Balances - Governmental Funds | | \$ (1,467,404) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report: | | |
| Capital expenditures in period purchased | 312,180 | |
| Interest expenditures in year paid | 8,110 | |
| Tax revenue when collected | (14,769) | |
| Advances from developer | 65,149 | |
| Bond principal in year paid | 2,215,000 | |
| Amortization of bond premiums and discounts | <u>(36,095)</u> | 2,549,575 |
| Governmental funds do not report: | | |
| Depreciation | (309,526) | |
| Amortization | <u>(35,175)</u> | <u>(344,701)</u> |
| Change in Net Position - Governmental Activities | | <u><u>\$ 737,470</u></u> |

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

3. CASH AND CASH EQUIVALENTS

The investment policies of the District are governed by State statute and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; and securities collateralizing time deposits are held by independent third party trustees.

Cash - At March 31, 2020, the carrying amount of the District's cash was \$375,835 and the bank balance was \$391,921. Of the bank balance, \$308,901 was covered by federal depository insurance and the remaining balance was covered by pledged collateral.

Investments -

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair market values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

Credit risk. The District's investment policy requires the application of the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency;
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; or
- Public funds investment pools rated AAA or AAAm by a nationally recognized rating agency.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

3. CASH AND INVESTMENTS (continued) -

At March 31, 2020, the District held the following investments:

| Investment | Fair Market Value at 3/31/2020 | Governmental Fund | | | Investment Rating | |
|------------|-----------------------------------|-------------------|----------------|------------------|-------------------|------------------|
| | | General | Debt Service | Capital Projects | | |
| | | Unrestricted | Restricted (1) | Restricted (2) | Rating | Rating Agency |
| Texpool | \$ 5,609,485 | \$ 3,334,019 | \$ 2,275,466 | \$ - | AAAm | Standard & Poors |
| | \$ 5,609,485 | \$ 3,334,019 | \$ 2,275,466 | \$ - | | |

(1) Restricted for payment of debt service and cost of assessing and collecting taxes.

(2) Restricted for purchase of capital assets.

The District invests in the Texas Local Government Investment Pool (“Texpool”), an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. Texpool measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in Texpool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from Texpool.

Concentration of credit risk. In accordance with the District’s investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of March 31, 2020, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The government’s investment policy requires that the District’s deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of March 31, 2020, the District’s bank deposits were covered by FDIC insurance or pledged collateral.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past-due the following February 1. The Travis Central Appraisal District establishes appraised values in accordance with requirements of the Texas Legislature. The District levies taxes based on the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 5, 2019.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2019 tax roll. The tax rate, based on total taxable assessed valuation of \$332,039,236, was \$0.5275 on each \$100 valuation and was allocated \$0.1225 to the General Fund and \$0.4050 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.50 was established by the voters on May 6, 2000.

Property taxes receivable at March 31, 2020, consisted of the following:

| | General Fund | Debt Service Fund | Total |
|---------------------|-----------------|-------------------------|------------------|
| Current year levy | \$ 7,894 | \$ 26,097 | \$ 33,991 |
| Prior years' levies | 1,272 | 4,764 | 6,036 |
| | <u>\$ 9,166</u> | <u>\$ 30,861</u> | <u>\$ 40,027</u> |

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

5. INTERFUND ACCOUNTS

A summary of interfund accounts at March 31, 2020 is as follows:

| | Interfund Receivables | Payables |
|--|--------------------------|------------------|
| General Fund - Debt Service Fund | \$ 24,091 | \$ - |
| Debt Service Fund - General Fund | - | 24,091 |
| | <u>\$ 24,091</u> | <u>\$ 24,091</u> |

During the fiscal year ended March 31, 2020, the General Fund transferred \$1,528,050 to the Debt Service Fund to fund the early redemption of a portion of the District's previously issued Series 2012 bonds. Also during the fiscal year ended March 31, 2020, the General Fund transferred \$48,071 to the Capital Projects Fund to reimburse the developer for previously funded infrastructure and operating expenses.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

6. INTANGIBLE ASSETS

A summary of changes in intangible assets follows:

| | Balance 4/1/2019 | Additions | Deletions | Balance 3/31/2020 |
|---|---------------------|-------------|-----------|----------------------|
| Intangible assets - | | | | |
| Right to receive service | \$ 703,502 | \$ - | \$ - | \$ 703,502 |
| Total intangible assets being amortized | 703,502 | - | - | 703,502 |
| Less accumulated amortization for - | | | | |
| Right to receive service | (248,672) | (35,175) | - | (283,847) |
| Total accumulated amortization | (248,672) | (35,175) | - | (283,847) |
| Total intangible assets being amortized, net of accumulated amortization | \$ 454,830 | \$ (35,175) | \$ - | \$ 419,655 |

7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

| | Balance 4/1/2019 | Additions | Deletions | Balance 3/31/2020 |
|--|---------------------|-----------|-----------|----------------------|
| Capital assets being depreciated - | | | | |
| Water, wastewater & drainage facilities | 15,040,372 | 312,180 | - | 15,352,552 |
| Total capital assets being depreciated | 15,040,372 | 312,180 | - | 15,352,552 |
| Less accumulated depreciation for - | | | | |
| Water, wastewater & drainage facilities | (2,204,250) | (309,526) | - | (2,513,776) |
| Total accumulated depreciation | (2,204,250) | (309,526) | - | (2,513,776) |
| Total capital assets being depreciated, net of accumulated depreciation | 12,836,122 | 2,654 | - | 12,838,776 |
| Total capital assets, net | \$ 12,836,122 | \$ 2,654 | \$ - | \$ 12,838,776 |

8. DEFERRED OUTFLOWS OF RESOURCES

The following is a summary of changes in deferred outflows of resources for the year ended March 31, 2020:

| | |
|--|------------|
| Deferred charges on bond refundings - April 1, 2019 | \$ 577,427 |
| Retirements | (41,508) |
| Deferred charges on bond refundings - March 31, 2020 | \$ 535,919 |

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

9. BONDED DEBT

The following is a summary of bond transactions of the District for the year ended March 31, 2020:

| | <u>Unlimited Tax Bonds</u> |
|--|----------------------------|
| Bonds payable at April 1, 2019 | \$ 18,400,000 |
| Bonds issued | - |
| Bonds refunded | - |
| Bonds retired | (2,215,000) |
| Bond discount/premium, net of accumulated amortization | 140,316 |
| Bonds payable at March 31, 2020 | <u>\$ 16,325,316</u> |

On September 3, 2019, the District redeemed \$1,525,000 of its previously issued Series 2012 bonds prior to the scheduled maturity dates of August 15, 2033 through August 15, 2037. The early redemption resulted in an overall debt service savings to the District of \$980,150.

Bonds payable at March 31, 2020, were comprised of the following individual issues:

Unlimited Tax Bonds:

\$1,570,000 – 2012 Unlimited Tax Bonds payable serially through August 15, 2032 at interest rates which range from 2.90% to 4.00%. Bonds maturing on and after August 15, 2020 are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time, in part, on August 15, 2019. Additionally, term bonds maturing on August 15 in the years 2027, 2029 and 2032 are subject to mandatory sinking fund redemption.

\$3,140,000 – 2013 Unlimited Tax Bonds payable serially through August 15, 2038 at interest rates which range from 3.50% to 4.75%. Bonds maturing on and after August 15, 2021 are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time, in part, on August 15, 2020. Additionally, term bonds maturing on August 15 in the years 2023, 2025, 2027, 2029, 2032, 2035 and 2038 are subject to mandatory sinking fund redemption.

\$3,710,000 – 2014 Unlimited Tax Bonds payable serially through August 15, 2039 at interest rates which range from 2.00% to 4.00%. Bonds maturing on and after August 15, 2022 are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time, in part, on August 15, 2021. Additionally, term bonds maturing on August 15 in the years 2028, 2030, 2036 and 2039 are subject to mandatory sinking fund redemption.

Unlimited Tax Refunding Bonds:

\$4,910,000 – 2014 Unlimited Tax Refunding Bonds payable serially through August 15, 2032 at interest rates which range from 3.00% to 4.00%. Bonds maturing on and after August 15, 2022 are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time, in part, on August 15, 2021.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

9. BONDED DEBT (continued) -

\$2,855,000 – 2016 Unlimited Tax Refunding Bonds payable serially through August 15, 2035 at interest rates which range from 2.00% to 4.00%. Bonds maturing on and after August 15, 2025 are subject to redemption at the option of the District prior to their maturity dates in whole or from time to time, in part, on August 15, 2023. Additionally, term bonds maturing on August 15 in the years 2025, 2027 and 2029 are subject to mandatory sinking fund redemption.

The annual requirements to amortize all bonded debt at March 31, 2020, including interest, are as follows:

| Fiscal Year Ended | Annual Requirements for All Series | | |
|-------------------|------------------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| March 31 | | | |
| 2021 | \$ 705,000 | \$ 590,287 | \$ 1,295,287 |
| 2022 | 735,000 | 570,462 | 1,305,462 |
| 2023 | 755,000 | 549,524 | 1,304,524 |
| 2024 | 780,000 | 526,750 | 1,306,750 |
| 2025 | 810,000 | 501,305 | 1,311,305 |
| 2026-2030 | 4,530,000 | 2,039,131 | 6,569,131 |
| 2031-2035 | 4,820,000 | 1,095,795 | 5,915,795 |
| 2036-2040 | 3,050,000 | 284,441 | 3,334,441 |
| | <u>\$ 16,185,000</u> | <u>\$ 6,157,695</u> | <u>\$ 22,342,695</u> |

\$2,251,375 is available in the Debt Service Fund to service the bonded debt.

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

Bonds authorized but not issued as of March 31, 2020, are as follows:

| Type | Amount |
|---------------------|---------------|
| Unlimited Tax Bonds | \$ 20,846,322 |
| Refunding Bonds | \$ 26,515,118 |

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

10. COMMITMENTS AND CONTINGENCIES

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of March 31, 2020, has recorded no liability pertaining to such costs

11. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (“TML Pool”) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established claims reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

12. FIRM WATER CONTRACT

On September 23, 2008, Travis County Municipal Utility District No. 12 (“District No. 12”) executed a Firm Water Contract with the Lower Colorado River Authority (the “LCRA”) on behalf of itself, the District and Travis County Municipal Utility District No. 13 (“District 13”) (collectively, the “Participating Districts”). Per the terms of the contract, the Participating Districts will have the right to a maximum of 1,680 acre-feet (547,429,680 gallons) of raw or untreated water per annum. If the amount of water diverted for any reason exceeds the maximum annual quantity during two consecutive years, or two out of any four consecutive years, the LCRA shall have the right to require District No. 12 to negotiate a new standard firm water contract for an increased maximum annual quantity of water on behalf of the Participating Districts. The water supplied by the LCRA is for municipal use only. This water supply and the related costs will be shared by the Participating Districts (see Note 16). Under the Firm Water Contract, the District is obligated to implement a water conservation plan and to amend its water conservation plan as necessary to reflect amendments in State law or LCRA’s rules and regulations.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

12. FIRM WATER CONTRACT (continued) -

Under the Firm Water Contract, District No. 12 is required to pay the LCRA, on a monthly basis, an amount of money equal to the rate determined by the Board of Directors of the LCRA to then be in effect for all sales of firm water for the same use as provided in the contract (“Water Rate”) multiplied by the amount of water diverted by District No. 12 on behalf of the Participating Districts during the previous month. In addition, District No. 12 agrees to pay the LCRA, on a calendar year basis, an amount of money equal to the water rate multiplied by fifty percent of the excess of the maximum annual quantity reserved under the contract over the amount of water diverted during the previous calendar year. Further, District No. 12 agreed to pay the cost of any water diverted in excess of the maximum annual quantity as defined in the contract. These costs are allocated among and shared by the Participating Districts (see Note 16).

The term of this contract is 40 years.

13. WHOLESALE WATER SERVICES AGREEMENT

On October 20, 2009, District No. 12 executed a Wholesale Water Services Agreement (the “Water Services Agreement”) with the LCRA in which LCRA agreed to provide wholesale water services to the District on behalf of the Participating Districts. Per the Water Services Agreement, the Participating Districts are responsible for construction of all improvements necessary to transport the potable water provided by the LCRA from the delivery point to the Participating Districts’ utility systems and to supply potable water service to the Participating Districts’ service areas. Per the Water Services Agreement, the LCRA has agreed to expand and improve water facilities (the “LCRA System”) as necessary to provide adequate wholesale water services, with all costs of the LCRA System to be recovered in a fair and equitable manner through the rates and charges of LCRA to the customers of the LCRA System. The LCRA contracted to sell the West Travis County Water System to the West Travis Public Utility Agency (the “PUA”) in an installment sale and, in connection with that sale, transferred operations and maintenance responsibilities under the Water Services Agreement to the PUA as its assignee.

14. CONTRACT WITH LAKEWAY MUNICIPAL UTILITY DISTRICT

The District has contracted with Lakeway Municipal Utility District (“Lakeway MUD”) to provide wholesale water and wastewater services to the portion of the District known as Rough Hollow. This contract has been amended to allow a portion of the wastewater capacity available under the contract to the portion of the District known as the Highlands, as well as District 12 and District 13, as defined in Note 16, below, until an agreement for the expansion of Lakeway MUD’s wastewater treatment plant is finalized, under which Lakeway MUD would provide wholesale wastewater service to the entirety of the Highlands.

The Wholesale Wastewater Capacity and Services Agreement described in Note 15 (the “2015 Agreement”) superseded and replaced all provisions of this contract relating to wastewater, but not water service. The 94,800 GPD of wastewater capacity provided under this contract was transferred and is included in the capacity under the 2015 Agreement.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

15. WHOLESALE WASTEWATER CAPACITY AND SERVICES AGREEMENT

Effective July 29, 2015, District No. 12 contracted with Lakeway MUD on behalf of the Participating Districts to purchase an additional maximum monthly daily average volume of 305,200 GPD of wastewater treatment and disposal capacity from Lakeway MUD for a total purchase price of \$4,941,000 in order to provide the Participating Districts with a total maximum monthly daily average volume of wastewater treatment and disposal capacity of 400,000 GPD in lieu of construction of a stand-alone plant by the Participating Districts. The District's share of this payment was determined to be \$494,100 or 10% as defined in Note 16.

16. MEMORANDUM OF UNDERSTANDING REGARDING SHARED RAW WATER SUPPLY AND WATER AND WASTEWATER CAPACITY

Effective April 5, 2010, the Participating Districts entered into an Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services ("MOU") with Rough Hollow Development, Ltd. (the "Developer"). The MOU was executed in contemplation of the future execution of a Shared Facilities Agreement between the parties.

The MOU has been amended by the First Amendment dated effective August 23, 2011, Second Amendment dated effective as of August 12, 2014, and Third Amendment dated effective August 19, 2015. The MOU, as amended, provides for, among other things, the allocation of costs for shared raw water supply and allocated capacity for shared water and wastewater facilities that serve the portion of the District located within the area known as the Highlands, and all of District No. 12 and District No. 13 (the "Highlands").

The allocations are as follows:

Allocated Raw Water Supply and Share of Raw Water Costs

| District | Allocated Water Supply | Cost Allocation Percentage |
|-----------------|-------------------------------|-----------------------------------|
| The District | 142.332 million gal/yr | 26.0% |
| District No. 12 | 218.972 million gal/yr | 40.0% |
| District No. 13 | 186.126 million gal/yr | 34.0% |

Allocated Capacity and Share of Costs in Lift Station No. 1 and Four-Inch Force Main

| District | Allocated Capacity | Cost Allocation Percentage |
|-----------------|---------------------------|-----------------------------------|
| The District | 180 LUE's | 71.1% |
| District No. 12 | 0 LUE's | 0.0% |
| District No. 13 | 73 LUE's | 28.9% |
| Total | 253 LUE's | 100.0% |

Allocated Capacity and Share of Costs of Potable Water Services and Highlands Shared Facilities

| District | Allocated Capacity | Cost Allocation Percentage |
|-----------------|---------------------------|-----------------------------------|
| The District | 152 LUE's | 10.0% |
| District No. 12 | 799 LUE's | 48.0% |
| District No. 13 | 689 LUE's | 42.0% |
| Total | 1,640 LUE's | 100.0% |

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

16. MEMORANDUM OF UNDERSTANDING REGARDING SHARED RAW WATER SUPPLY AND WATER AND WASTEWATER CAPACITY (continued) -

Under the Third Amendment to the MOU, the additional wastewater capacity of 305,200 GPD purchased from Lakeway MUD by District No. 12 on behalf of the Participating Districts is to be allocated as set forth above for the Highland Shared Facilities.

Under the MOU, the Developer has agreed to pay the District's share of costs under the Firm Water Contract described in Note 12, the Water Services Agreement described in Note 13 and certain other costs associated with water actually being used by the District to provide service until the District is utilizing all water allocated to it under the MOU or has revenues available to pay its share of such costs.

17. FUND BALANCES

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

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The details of the fund balances are included in the Governmental Funds Balance Sheet on page FS-1.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2020

18. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the bond issues.

The District is required to provide continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District. The District files such information in accordance with the requirements of the Municipal Securities Rulemaking Board, to the Electronic Municipal Market Access (“EMMA”) system.

19. USE OF SURPLUS FUNDS

On December 5, 2019, the District used surplus bond proceeds and surplus operating funds in the amount of \$171,748 to reimburse the developer within the District for construction costs associated with water, wastewater and drainage facilities and previously funded operating expenses.

20. SUBSEQUENT EVENT

On May 21, 2020, the District closed on the sale of \$4,775,000 of Series 2020 Unlimited Tax Refunding Bonds. Proceeds of the bonds were used to currently refund \$1,570,000 and \$3,045,000 of the District’s previously issued Series 2012 and Series 2013 Unlimited Tax Bonds, respectively, in order to lower its overall debt service requirements. The bonds were issued at interest rates ranging from 2.00% to 3.00% with maturity dates through August 15, 2038. The current refunding resulted in an economic gain of \$469,747 and an overall debt service savings of \$616,675.

21. UNCERTAINTIES

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

REQUIRED SUPPLEMENTARY INFORMATION

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 11
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2020

| | <u>Actual</u> | <u>Original Budget</u> | <u>Final Amended Budget</u> | <u>Variance Positive (Negative)</u> |
|---|---------------------|----------------------------|---------------------------------|---|
| REVENUES: | | | | |
| Property taxes, including penalties | \$ 414,753 | \$ 396,628 | \$ 396,628 | \$ 18,125 |
| Service account revenues, including penalties | 999,772 | 996,705 | 996,705 | 3,067 |
| System connection fees | 96,469 | 121,625 | 121,625 | (25,156) |
| Grinder pump fees | 42,000 | 56,000 | 56,000 | (14,000) |
| Interest | 74,592 | 72,000 | 72,000 | 2,592 |
| TOTAL REVENUES | <u>1,627,586</u> | <u>1,642,958</u> | <u>1,642,958</u> | <u>(15,372)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Water/wastewater purchases | 671,500 | 696,014 | 696,014 | 24,514 |
| Intake system charges | 4,800 | 4,800 | 4,800 | - |
| Repairs and maintenance | 265,316 | 160,322 | 160,322 | (104,994) |
| Inspection/installation fees | 9,852 | 6,000 | 6,000 | (3,852) |
| Grinder pumps | 36,400 | 56,000 | 56,000 | 19,600 |
| Utilities | 4,040 | 10,800 | 10,800 | 6,760 |
| Operation fees | 60,306 | 56,067 | 56,067 | (4,239) |
| Director fees, including payroll taxes | 6,459 | 9,779 | 9,779 | 3,320 |
| Legal fees | 41,890 | 52,272 | 52,272 | 10,382 |
| Audit fees | 12,250 | 13,000 | 13,000 | 750 |
| Management fees | 60,000 | 60,000 | 60,000 | - |
| Engineering fees | 11,185 | 10,000 | 10,000 | (1,185) |
| Bookkeeping fees | 24,650 | 25,350 | 25,350 | 700 |
| Other consulting fees | 5,269 | - | - | (5,269) |
| Tax appraisal/collection fees | 2,004 | 3,000 | 3,000 | 996 |
| Insurance | 7,562 | 8,000 | 8,000 | 438 |
| Legal notices | 419 | - | - | (419) |
| Other | 4,113 | 4,800 | 4,800 | 687 |
| Capital outlay | 242,986 | 375,000 | 375,000 | 132,014 |
| TOTAL EXPENDITURES | <u>1,471,001</u> | <u>1,551,204</u> | <u>1,551,204</u> | <u>80,203</u> |
| Excess / (deficiency) of revenues over / (under) expenditures | <u>156,585</u> | <u>91,754</u> | <u>91,754</u> | <u>64,831</u> |
| OTHER FINANCING USES - | | | | |
| Operating transfers out | <u>(1,576,121)</u> | <u>-</u> | <u>(1,576,121)</u> | <u>-</u> |
| TOTAL OTHER FINANCING USES | <u>(1,576,121)</u> | <u>-</u> | <u>(1,576,121)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | <u>(1,419,536)</u> | <u>\$ 91,754</u> | <u>\$ (1,484,367)</u> | <u>\$ 64,831</u> |
| FUND BALANCE: | | | | |
| Beginning of the year | <u>4,741,277</u> | | | |
| End of the year | <u>\$ 3,321,741</u> | | | |

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APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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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



SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES