

**OFFICIAL NOTICE OF SALE, OFFICIAL BID FORM  
AND  
PRELIMINARY OFFICIAL STATEMENT**

**\$8,150,000**

**HARRIS COUNTY WATER CONTROL AND  
IMPROVEMENT DISTRICT NO. 1**

**Designated by the District as  
“QUALIFIED TAX-EXEMPT OBLIGATIONS”**

**UNLIMITED TAX BONDS,  
SERIES 2022**

**Bids due  
Tuesday, December 14, 2021  
at  
11:00 A.M., Central Time**

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This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Bonds defined and described herein. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

## OFFICIAL NOTICE OF SALE

**The Issuer will designate the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions.**

**\$8,150,000**  
**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**UNLIMITED TAX BONDS, SERIES 2022**

**BONDS OFFERED FOR SALE AT COMPETITIVE BID:** The Board of Directors (the “Board”) of the Harris County Water Control and Improvement District No. 1 (the “District” or the “Issuer”) is offering for sale at competitive bid \$8,150,000 Unlimited Tax Bonds, Series 2022 (the “Bonds”).

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on December 14, 2021. Bidders submitting a bid by internet **shall not be required to submit signed Official Bid Forms prior to the award.** Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of PARITY and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on December 14, 2021 indicating their intent to submit a bid by internet.

Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of PARITY. In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile to 210-832-9794. Bids received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the District. The District shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

**BIDS BY FACSIMILE:** BIDS BY FACSIMILE WILL NOT BE ACCEPTED (except as described above).

**BIDS BY TELEPHONE:** BIDS BY TELEPHONE WILL NOT BE ACCEPTED.

**OPENING OF BIDS:** The bids for the Bonds will be publicly opened and reviewed at the San Antonio offices of SAMCO Capital Markets, Inc. (the “Financial Advisor”), 1020 NE Loop 410, Suite 640, San Antonio, Texas, 78209, at 11:00 A.M., Central Time, on Tuesday, December 14, 2021.

**AWARD AND SALE OF THE BONDS:** The Board of Directors of the District will take action to reject the bids or accept the bid and award the Bonds to the low qualified bidder (the “Winning Bidder”), as described in the section entitled “CONDITIONS FOR SALE – Basis for Award” herein by adopting an order authorizing the issuance and awarding the sale of the Bonds (the “Order”) at a scheduled meeting to commence at 6:00 P.M. Central Time on Tuesday, December 14, 2021.

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## THE BONDS

**DESCRIPTION OF CERTAIN TERMS OF THE BONDS:** The Bonds will be dated December 15, 2021 (the "Dated Date") with interest to accrue from the Dated Date and be payable initially on August 15, 2022, and semiannually on each February 15 and August 15 thereafter until the earlier of stated maturity or prior redemption. The Bonds will be issued as fully registered Bonds in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" in the Official Statement.) The Bonds will be stated to mature on February 15 in each of the following years in the following amounts:

### MATURITY SCHEDULE (Due February 15)

<u>Stated Maturity</u>	<u>Principal Amount*</u>	<u>Stated Maturity</u>	<u>Principal Amount</u>
2023	\$45,000	2033	\$430,000
2024	330,000	2034	435,000
2025	340,000	2035	445,000
2026	350,000	2036	455,000
2027	365,000	2037	465,000
2028	375,000	2038	475,000
2029	385,000	2039	490,000
2030	395,000	2040	500,000
2031	410,000	2041	515,000
2032	420,000	2042	525,000

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** The District reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Bonds shall not exceed \$8,150,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the District to reflect such increase or decrease. The District will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

**SERIAL BONDS AND/OR TERM BONDS:** Bidders may provide that all of the Bonds be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term bonds (the "Term Bonds").

**MANDATORY SINKING FUND REDEMPTION:** If the Winning Bidder designates principal amounts to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "MATURITY SCHEDULE". Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District or have been optionally redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

**OPTIONAL REDEMPTION:** The District reserves the right, at its option, to redeem the Bonds maturing on or after February 15, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption as further described in the Official Statement.

**SECURITY FOR PAYMENT:** The Bonds are payable from an annual ad valorem tax levied, without limitation as to rate or amount, on all taxable property located within the District. 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. (See "THE BONDS - Security for Payment" in the Preliminary Official Statement.)

**OTHER TERMS AND COVENANTS:** Other terms of the Order and the various covenants of the District contained in the Order are described in the Official Statement, to which reference is made for all purposes.

**SUCCESSOR PAYING AGENT/REGISTRAR:** The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Order, the District covenants to provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Bonds.

In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the District, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

## CONDITIONS OF SALE

**TYPES OF BIDS AND INTEREST RATES:** The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Bonds from the Dated Date of the Bonds to the date of Initial Delivery (defined herein) of the Bonds. **No bid producing a cash premium on the Bonds that results in a dollar price not less than 99% of their par value will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS - ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Bonds of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

**BASIS OF AWARD: The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest Net Effective Interest Cost (defined herein) rate to the District. The "Net Effective Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.**

**In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), relating to the excludability of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the District (on or before the date of initial delivery of the Bonds) a certification as to their initial offering prices of the Bonds (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale. (See "CONDITIONS OF SALE - ESTABLISHMENT OF ISSUE PRICE" herein.)**

### **ESTABLISHMENT OF ISSUE PRICE:**

(a) The Winning Bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at least five (5) business days before the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the District, and Johnson Petrov LLP, the District's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Bonds under applicable federal regulations). All actions to be taken by the District under this Official Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the District by the District's Financial Advisor and any notice or report to be provided to the District may be provided to the District's Financial Advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) the District shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the District shall so advise the Winning Bidder. In such event, the District intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Bonds as the issue price of that maturity (the "hold-the-offering-price rule"). The District shall promptly advise the Winning Bidder, at or before the time of award of the Bonds, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Bonds. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies. In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the District.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or

- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder will advise the District promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

(e) The District acknowledges that, in making the representations set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a retail or other third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (3) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) "sale date" means the date that the Bonds are awarded by the District to the Winning Bidder.

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** See "THE BONDS – Adjustment of Principal Amounts and Maturity Schedule for the Bonds" for a description of the District's reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities.

**GOOD FAITH DEPOSIT:** A bank cashier's check payable to the order of "Harris County Water Control and Improvement District No. 1" in the amount of \$163,000, which is 2% of the par value of the Bonds (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the District until the Bonds are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Bonds; however, should the Purchaser fail or refuse to take up and pay for the Bonds, said Good Faith Deposit is to be cashed by the District and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Bonds has been made.

**ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:**

It is the obligation of the District to receive information from Winning Bidder if bidder is not a publicly traded business entity (a “Privately Held Bidder”). Pursuant to Texas Government Code Section 2252.908 (the “Interested Party Disclosure Act”), the District may not award the Bonds to a Winning Bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the District as prescribed by the Texas Ethics Commission (“TEC”). In the event that a Privately Held Bidder’s bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the District’s conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (Harris County Water Control and Improvement District No. 1) and (b) item 3 - the identification number assigned to this contract by the District (HCWC&D 1 UTB S022 – Bid Form) and description of the goods or services (Purchase of the Harris County Water Control and Improvement District No. 1, Unlimited Tax Bonds, Series 2022 ). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”) require a non-publicly traded business entity contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/filinginfo/1295>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC’s “electronic portal” to the District. The executed Disclosure Form must be sent by email to the District’s financial advisor at [mmcliney@samcocapital.com](mailto:mmcliney@samcocapital.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Zachary Petrov, c/o Johnson Petrov LLP, 2929 Allen Parkway, Suite 3150, Houston, Texas 77019, along with a PDF executed version sent to [zpetrov@johnsonpetrov.com](mailto:zpetrov@johnsonpetrov.com).

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. If applicable, the District reserves the right to reject any bid that does not satisfy the requirement of a completed.

Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder’s obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at <https://www.ethics.state.tx.us/filinginfo/1295>.

**ADDITIONAL CONDITIONS OF AWARD:**

***NO BOYCOTT OF ISRAEL:*** By submission of a bid for the Bonds, the bidder represents and verifies that to the extent a bid for the Bonds constitutes a contract for goods or services for which a written verification is required under Section 2271.002, Texas Government Code that the bidder and any syndicate member listed on the Official Bid Form and any parent company, wholly- or majority-owned subsidiaries, and other affiliates of the bidder or any syndicate member listed on the Official Bid Form, if any, do not boycott Israel and will not boycott Israel through the end of the underwriting period. The foregoing verification is made solely to enable the District to comply with such Section and to the extent such Section does not contravene applicable federal or Texas law. As used in the foregoing verification, “boycott Israel,” a term defined in Section 2271.001, Texas Government Code, by reference to Section 808.001(1), Texas Government Code, means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes.

***SANCTIONED COUNTRIES REPRESENTATION:*** By submission of a bid for the Bonds, the bidder represents and verifies that neither the bidder nor any syndicate member listed on the Official Bid Form nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates of the bidder or any syndicate member listed on the Official Bid Form, if any, is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer’s internet website:

<https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>,

<https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or

<https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>.

The foregoing representation is made solely to enable the District to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable federal or Texas law and excludes the bidder and any syndicate member listed on the Official Bid Form and each parent company, wholly- or majority-owned subsidiaries, and other affiliates of the bidder and any syndicate member listed on the Official Bid Form, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

**COMPLIANCE WITH LAWS PROHIBITING CONTRACTS WITH COMPANIES THAT BOYCOTT ENERGY COMPANIES.** By submission of a bid for the Bonds, the bidder represents and verifies that to the extent a bid for the Bonds constitutes a contract for goods or services for which a written verification is required under Section 2274.002, Texas Government Code (as added by Senate Bill 13, 87th Texas Legislature, Regular Session ("SB 13")), as amended, the bidder and any syndicate member listed on the Official Bid Form, and the parent company, wholly- or majority- owned subsidiaries, and other affiliates, if any, of the bidder or any syndicate member listed on the Official Bid Form do not boycott energy companies and, such entities will not boycott energy companies through the end of the underwriting period. The foregoing verification is made solely to enable the District to comply with such Section and to the extent such Section does not contravene applicable federal or Texas law. As used in the foregoing verification, "boycott energy companies," a term defined in Section 2274.001(1), Texas Government Code (as enacted by SB 13) by reference to Section 809.001, Texas Government Code (also as enacted by SB 13), shall mean, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company (A) engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or (B) does business with a company described by (A) above.

**COMPLIANCE WITH LAWS PROHIBITING CONTRACTS WITH COMPANIES THAT DISCRIMINATE AGAINST A FIREARM ENTITY OR TRADE ASSOCIATION.** By submission of a bid for the Bonds, the bidder represents and verifies that to the extent a bid for the Bonds constitutes a contract for goods or services for which a written verification is required under Section 2274.002, Texas Government Code (as added by Senate Bill 19, 87th Texas Legislature, Regular Session, ("SB 19")), as amended, the neither bidder nor any syndicate member listed on the Official Bid Form, nor the parent company, wholly- or majority- owned subsidiaries, and other affiliates, if any, of the bidder or any syndicate member listed on the Official Bid Form have a practice, policy, guidance or directive that discriminates against a firearm entity or firearm trade association; and such entities will not through the end of the underwriting period discriminate against a firearm entity or firearm trade association. The foregoing verification is made solely to enable the District to comply with such Section and to the extent such Section does not contravene applicable federal or Texas law. As used in the foregoing verification and the following definitions, (a) "discriminate against a firearm entity or firearm trade association," a term defined in Section 2274.001(3), Texas Government Code (as enacted by SB 19), (A) means, with respect to the firearm entity or firearm trade association, to (i) refuse to engage in the trade of any goods or services with the firearm entity or firearm trade association based solely on its status as a firearm entity or firearm trade association, (ii) refrain from continuing an existing business relationship with the firearm entity or firearm trade association based solely on its status as a firearm entity or firearm trade association, or (iii) terminate an existing business relationship with the firearm entity or firearm trade association based solely on its status as a firearm entity or firearm trade association and (B) does not include (i) the established policies of a merchant, retail seller, or platform that restrict or prohibit the listing or selling of ammunition, firearms, or firearm accessories and (ii) a company's refusal to engage in the trade of any goods or services, decision to refrain from continuing an existing business relationship, or decision to terminate an existing business relationship (aa) to comply with federal, state, or local law, policy, or regulations or a directive by a regulatory agency or (bb) for any traditional business reason that is specific to the customer or potential customer and not based solely on an entity's or association's status as a firearm entity or firearm trade association, (b) "firearm entity," a term defined in Section 2274.001(6), Texas Government Code (as enacted by SB 19), means a manufacturer, distributor, wholesaler, supplier, or retailer of firearms (defined in Section 2274.001(4), Texas Government Code, as enacted by SB19, as weapons that expel projectiles by the action of explosive or expanding gases), firearm accessories (defined in Section 2274.001(5), Texas Government Code, as enacted by SB 19, as devices specifically designed or adapted to enable an individual to wear, carry, store, or mount a firearm on the individual or on a conveyance and items used in conjunction with or mounted on a firearm that are not essential to the basic function of the firearm, including detachable firearm magazines), or ammunition (defined in Section 2274.001(1), Texas Government Code, as enacted by SB 19, as a loaded cartridge case, primer, bullet, or propellant powder with or without a projectile) or a sport shooting range (defined in Section 250.001, Texas Local Government Code, as a business establishment, private club, or association that operates an area for the discharge or other use of firearms for silhouette, skeet, trap, black powder, target, self-defense, or similar recreational shooting), and (c) "firearm trade association," a term defined in Section 2274.001(7), Texas Government Code (as enacted by SB 19), means any person, corporation, unincorporated association, federation, business league, or business organization that (i) is not organized or operated for profit (and none of the net earnings of which inures to the benefit of any private shareholder or individual), (ii) has two or more firearm entities as members, and (iii) is exempt from federal income taxation under Section 501(a), Internal Revenue Code of 1986, as an organization described by Section 501(c) of that code. As used in the foregoing verifications, the bidder and any syndicate member listed on the Official Bid Form understand "affiliate" to mean an entity that controls, is controlled by, or is under common control with the bidder and any syndicate member listed on the Official Bid Form within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit.

**REPRESENTATION REGARDING TEXAS ATTORNEY GENERAL STANDING LETTER.** By submission of a bid for the Bonds, the bidder represents and verifies that the bidder and any syndicate member listed on the Official Bid Form, has, or will have not later than ten days before to the scheduled closing of the Bonds, on file with the Texas Attorney General either (i) a standing letter addressing the verifications contained in the Bid Form in a form acceptable to the Texas Attorney General, or (ii) another letter addressing the verifications in the Bid Form in a form acceptable to the Texas Attorney General. Each of bidder and any syndicate member listed on the Official Bid Form shall provide the District with a copy of such letter not later than ten days prior to the scheduled closing date for the Bonds.

**CONTRACTING INFORMATION:** The District will not award the Bonds to a bidder unless the bidder verifies on behalf of itself and each syndicate member listed on the Official Bid Form that, to the extent the Official Bid Form represents a contract for goods or services within the meaning of Section 552.371 of the Texas Government Code, as amended, the bidder and each syndicate member listed on the Official Bid Form will (i) preserve all contracting information related to the bid as provided by the records retention requirements applicable to the District through the delivery date of the Bonds, (ii) promptly provide to the District any contracting information related to the bid that is in the custody or possession of the bidder or any syndicate member on request of the District, and (iii) upon delivery of the Bonds to the bidder, either (a) provide at no cost to the District all contracting information related to the bid that is in the custody or possession of the bidder or any syndicate member or (b) preserve the contracting information related to the bid as provided by the records retention requirements applicable to the District. The term "contracting information" as used in this paragraph has the meaning assigned to such term in Section 552.003 of the Texas Government Code.

**IMPACT OF BIDDING SYNDICATE ON AWARD:** For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.



## OFFICIAL STATEMENT

To assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the District and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

**COMPLIANCE WITH RULE:** The District has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the District of the initial offering yields of the Bonds.

The District agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The District will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the District intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the District makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the District, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds.

**FINAL OFFICIAL STATEMENT:** In addition to delivering the Official Statement in a "designated electronic format", the District will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Bonds, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 100 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The Purchaser will be responsible for providing information concerning the District and the Bonds to subsequent purchasers of the Bonds, and the District will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The District's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Bonds to the Purchaser, unless the Purchaser notifies, in writing, the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Bonds have been sold to ultimate customers.

**CHANGES TO OFFICIAL STATEMENT:** If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Bonds, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - Conditions to Delivery", the District will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a "designated electronic format"; provided, however, that the obligation of the District to do so will terminate when the District delivers the Bonds to the Purchaser, unless the Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

**CERTIFICATION OF THE OFFICIAL STATEMENT:** At the time of payment for and delivery of the hereinafter defined Initial Bonds (the "Delivery Date"), the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last financial statements of the District appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Bonds will be authorized, ratified and approved by the Board of the District on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the District.

**CONTINUING DISCLOSURE AGREEMENT:** The District will agree in the Order to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

**COMPLIANCE WITH PRIOR UNDERTAKINGS:** During the past five years, the District has complied in all material respects with its continuing disclosure agreements in accordance with SEC Rule 15c2-12.

## DELIVERY AND ACCOMPANYING DOCUMENTS

**INITIAL DELIVERY OF INITIAL BOND:** The initial delivery of the Bonds to the Purchasers on the "Delivery Date" (identified below), will be accomplished by the issuance of either (i) a single fully registered Bond in the total principal amount of \$8,150,000 payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Bond for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Bond(s)"), signed by manual or facsimile signature of the Board President and the Board Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Bonds will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Bond(s), they shall be immediately canceled and one Bond for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Bond(s) must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery of the Initial Bonds can be made on or about January 12, 2022, but if for any reason the District is unable to make delivery by January 12, 2022, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Bonds. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the District's reasonable control.

**EXCHANGE OF INITIAL BONDS FOR DEFINITIVE BONDS:** Upon payment for the Initial Bond(s) at the time of such delivery, the Initial Bond(s) are to be canceled by the Paying Agent/Registrar and registered definitive Bonds delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Bonds shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Bond(s), final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Bond(s) and delivery of registered definitive Bonds may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the District; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

**CONDITIONS TO DELIVERY:** The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Bond, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "No Material Adverse Change", all as described below. In addition, if the District fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

**NO MATERIAL ADVERSE CHANGE:** The obligation of the Purchaser to take up and pay for the Bonds, and of the District to deliver the Initial Bond(s), are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Bond(s), there shall have been no material adverse change in the affairs of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

**LEGAL OPINIONS:** The Bonds are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

**CHANGE IN TAX-EXEMPT STATUS:** At any time before the Bonds are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Bonds shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

## GENERAL CONSIDERATIONS

**FUTURE REGISTRATION:** The Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Bonds surrendered for exchange or transfer.

**RECORD DATE:** The record date ("Record Date") for determining the party to whom the semiannual interest on the Bonds is payable on any interest payment date is the last business day of the month next preceding such interest payment date.

**RATING:** A municipal bond rating application has been made to S&P Global Ratings (“S&P”). The outcome of the results will be made available to the Purchasers as soon as possible. (See “OTHER PERTINENT INFORMATION – Ratings” in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of S&P at the time the rating is given, and the District makes no representations as to the appropriateness of the rating. If the Purchaser chooses to submit a bid utilizing bond insurance, the enhanced long-term rating on the Bonds will be dependent upon the rating of the provider of such policy. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS” in the Preliminary Official Statement. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

**SALE OF ADDITIONAL BONDS:** The District has no plans for any other debt issues in the next 12 months.

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE:** No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended (the “Act”), in reliance upon exemptions provided in such Act. The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Purchaser’s written request and expense and within reasonable limits, in registering or qualifying the Bonds, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Bonds are offered for sale.

**ADDITIONAL COPIES:** Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from [www.samcocapital.com](http://www.samcocapital.com).

The Board of the District has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Bonds. On the date of the sale, the Bonds will, in the Order authorizing the issuance of the Bonds, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

/s/  
\_\_\_\_\_  
President, Board of Directors  
HARRIS COUNTY WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1

ATTEST:

/s/  
\_\_\_\_\_  
Secretary, Board of Directors  
HARRIS COUNTY WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1

December 7, 2021

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**OFFICIAL BID FORM**

Honorable Board President and Board  
 Harris County Water Control and Improvement District No. 1  
 125 San Jacinto Ave  
 Highlands, Texas 77562

December 7, 2021

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated December 15, 2021, which terms are incorporated by reference to this proposal, we hereby submit the following bid for \$8,150,000 Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2022, dated December 15, 2021 (the "Bonds").

For said legally issued Bonds, we will pay you \$\_\_\_\_\_ (a dollar price not less than 99% of par value) plus accrued interest from their date to the date of delivery to us, for Bonds maturing February 15 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2023	\$ 45,000		2033*	\$430,000	
2024	330,000		2034*	435,000	
2025	340,000		2035*	445,000	
2026	350,000		2036*	455,000	
2027	365,000		2037*	465,000	
2028	375,000		2038*	475,000	
2029	385,000		2039*	490,000	
2030	395,000		2040*	500,000	
2031*	410,000		2041*	515,000	
2032*	420,000		2042*	525,000	

*\*Maturities available for term bonds*

Our calculation (which is not part of this bid) of the Net \_\_\_\_\_ %  
 Effective Interest Cost from the above is:

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** As a condition to our submittal of this bid for the Bonds, we acknowledge the following: The District reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Bonds, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Bonds shall not exceed \$8,150,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the District to reflect such increase or decrease. The District will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

Of the principal maturities set forth in the table above, we have created term bonds (the "Term Bonds") as indicated in the following table (which may include no more than three Term Bonds. For those years which have been combined into a Term Bond, the principal amount shown in the table shown on page ii of the Official Notice of Sale will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date will mature in such year. The Term Bonds created are as follows:

Term Bond Maturity Date February 15		Year of First Mandatory Redemption		Principal Amount of Term Bond		Interest Rate

The Initial Bond(s) shall be registered in the name of \_\_\_\_\_, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System. Cashier's Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, Texas, in the amount of \$163,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Bonds utilizing the Book-Entry-Only System through DTC and make payment for the Initial Bonds in immediately available funds at the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 11:00 A.M., Central Time, on Tuesday, December 14, 2021, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the Purchaser of the Bonds to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidence thereof, agrees to complete, execute, and deliver to the District, by the Delivery Date, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the District. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it (1) does not and will not "boycott Israel", (2) is not a company on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, (3) does not and will not "discriminate against a firearm entity or firearm trade association", (4) does not and will not "boycott energy companies" and (5) will provide a standing letters, in the form of acceptable to the Texas Attorney General, addressing the verifications, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD".

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Through the submittal of this executed Official Bid Form, the undersigned verifies on behalf of itself and each syndicate member listed on the Official Bid Form that, to the extent the Official Bid Form represents a contract for goods or services within the meaning of Section 552.371 of the Texas Government Code, as amended, the bidder and each syndicate member listed on the Official Bid Form will (i) preserve all contracting information related to the bid as provided by the records retention requirements applicable to the District through the delivery date of the Bonds, (ii) promptly provide to the District any contracting information related to the bid that is in the custody or possession of the bidder or any syndicate member on request of the District, and (iii) upon delivery of the Bonds to the bidder, either (a) provide at no cost to the District all contracting information related to the bid that is in the custody or possession of the bidder or any syndicate member or (b) preserve the contracting information related to the bid as provided by the records retention requirements applicable to the District. The term "contracting information" as used in this paragraph has the meaning assigned to such term in Section 552.003 of the Texas Government Code.

Upon notification of conditional verbal acceptance, the undersigned will, if required by applicable Texas law as described in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – Disclosure of Interested Party Form", complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the District's financial advisor at mmcliney@samcocapital.com and Bond Counsel at zpetrov@johnsonpetrov.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

By: \_\_\_\_\_  
Authorized Representative  
\_\_\_\_\_  
Telephone Number  
\_\_\_\_\_  
E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by Harris County Water Control and Improvement District No. 1, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 14<sup>th</sup> day of December 2021.

\_\_\_\_\_  
President, Board of Directors  
HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors  
HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

**\$8,150,000**  
**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**UNLIMITED TAX BONDS, SERIES 2022**

**ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (“\_\_\_\_\_”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Obligations”) of the Harris County Water Control and Improvement District No. 1 (the “Issuer”).

**1. Reasonably Expected Initial Offering Price.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by \_\_\_\_\_ are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Obligations used by \_\_\_\_\_ in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by \_\_\_\_\_ to purchase the Obligations.

(b) \_\_\_\_\_ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by \_\_\_\_\_ constituted a firm offer to purchase the Obligations.

**2. Defined Terms.**

(a) Maturity means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) Public means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) Sale Date means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is December 14, 2021.

(d) Underwriter means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents \_\_\_\_\_ interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Johnson Petrov LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

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SCHEDULE A  
EXPECTED OFFERING PRICES

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SCHEDULE B  
COPY OF UNDERWRITER'S BID

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

**NEW ISSUE - BOOK-ENTRY-ONLY**

**Ratings: S&P: "Applied For"**  
**(See: "OTHER PERTINENT INFORMATION - Ratings"**  
**"BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein)**

**PRELIMINARY OFFICIAL STATEMENT**

**Dated December 7, 2021**

*In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, and (2) will not be an item of preference for purpose of the federal alternative minimum tax.. (See "TAX MATTERS" herein.)*

**The District will designate the Bonds as "Qualified Tax-Exempt Obligations" for Financial Institutions.**

**\$8,150,000**

**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**(A political subdivision of the State of Texas located in Harris County, Texas)**  
**Unlimited Tax Bonds, Series 2022**

**Dated Date: December 15, 2021**

**Due: February 15, as shown on inside cover**

The \$8,150,000 Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2022 (the "Bonds"), are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission of Environmental Quality (the "TCEQ Order"), a bond election held November 3, 2015, and an order (the "Order") to be adopted by the Board of Directors of the Harris County Water Control and Improvement District No. 1 (the "District" or the "Issuer") on December 14, 2021, being the date of sale of the Bonds (see "THE BONDS –Authority for Issuance" herein).

The Bonds are payable from an annual ad valorem tax levied, without limitation as to rate or amount, on all taxable property located within the District. 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.

Interest on the Bonds will accrue from December 15, 2021 (the "Dated Date") and is payable August 15, 2022 and each February 15 and August 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as Cede & Co., as the paying agent to DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial paying agent/registrars for the Bonds shall be BOKF, NA, Dallas, Texas (the "Paying Agent").

Proceeds from the sale of the Bonds will be used for the purpose of paying contractual obligations of the District for (1) purchasing, constructing, acquiring, owning, leasing, operating, repairing, improving, or extending works, improvements, facilities, plants, equipment, and appliances for the District's waterworks, and sanitary sewer system, as well as all expenses in any manner incidental thereto (the currently intended projects being described in the engineer's report filed in the office of the District), and (2) paying the costs of any credit agreements executed in connection with the bonds and paying such expenses as are incidental to the administration and financing of the District. (See "THE BONDS - Use of Bond Proceeds" herein.)

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond guaranty policy. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

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**SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, MATURITY VALUES,  
INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS AND REDEMPTION PROVISIONS FOR THE BONDS**

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The Bonds are offered for delivery when, as and if issued and received by the initial purchaser thereof named below (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Johnson Petrov LLP, Bond Counsel, Houston, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. It is expected that the Bonds will be available for initial delivery through DTC on or about January 12, 2022.

**BIDS DUE TUESDAY, DECEMBER 14, 2021 11:00 A.M. CENTRAL TIME**

**\$8,150,000**  
**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**(A political subdivision of the State of Texas located in Harris County, Texas)**  
**Unlimited Tax Bonds, Series 2022**

CUSIP Prefix No. 413905<sup>(1)</sup>

**MATURITY SCHEDULE**

<b><u>Stated Maturity 2/15</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Initial Yield</u></b>	<b><u>CUSIP No. Suffix <sup>(1)</sup></u></b>	<b><u>Stated Maturity 2/15</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Initial Yield</u></b>	<b><u>CUSIP No. Suffix <sup>(1)</sup></u></b>
2023	\$ 45,000				2033	\$430,000			
2024	330,000				2034	435,000			
2025	340,000				2035	445,000			
2026	350,000				2036	455,000			
2027	365,000				2037	465,000			
2028	375,000				2038	475,000			
2029	385,000				2039	490,000			
2030	395,000				2040	500,000			
2031	410,000				2041	515,000			
2032	420,000				2042	525,000			

**(Interest to accrue from the Dated Date)**

The Issuer reserves the right to redeem the Bonds maturing on or after February 15, 2032, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 15, 2031, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain maturities of the Bonds to be grouped together as a "term bond" and such term bonds would be subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

<sup>(1)</sup> 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 and are solely for the convenience of the owners and potential owners of the Bonds. No assurance can be given that the CUSIP number for a particular maturity of the Bonds will remain the same after the date of initial delivery of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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**ELECTED AND APPOINTED OFFICIALS**

**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

125 San Jacinto Avenue  
Highlands, Texas 77562  
Telephone: (281) 426-2115  
Facsimile: (281) 426-3493

**BOARD OF DIRECTORS:**

<u>Name</u>	<u>Years of Service</u>	<u>Term Expires (May)</u>	<u>Primary Occupation</u>
Leon R. Mullins President	11	2023	Retired
Bobby Birdsong Vice President	11	2023	Retired
Harvey Little Secretary	7	2025	Fire Chief/Retired
Kenneth Boudreaux Treasurer	7	2025	Chemical Plant Operator
John H. Wright III Director	4	2025	Chemical Plant Operator

**ADMINISTRATIVE OFFICIALS**

<u>Name</u>	<u>Position</u>	<u>Years With the District</u>
Mark Taylor	General Manager	25 years

**CONSULTANTS AND ADVISORS**

Bond Counsel ..... Johnson Petrov LLP  
Houston, Texas

Certified Public Accountant ..... McCall Gibson Swedlund Barfoot PLLC, CPA  
Houston, Texas

Financial Advisor ..... SAMCO Capital Markets, Inc.  
San Antonio, Texas

*For Additional Information Please Contact:*

Mr. Mark Taylor  
District Manager  
Harris County WC&ID #1  
125 San Jacinto Avenue  
Highlands, Texas 77562  
Telephone: (281) 426-2115  
Facsimile: (281) 426-3493  
mark@hcwcid1.com

Mr. Mark McLiney  
Mr. Andrew Friedman  
SAMCO Capital Markets, Inc.  
1020 NE Loop 410, Suite 640  
San Antonio, Texas 78209  
Telephone: (210) 832-9760  
Facsimile: (210) 832-9794  
mmcliney@samcocapital.com  
afriedman@samcocapital.com

**USE OF INFORMATION IN THE PRELIMINARY OFFICIAL STATEMENT**

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, and in effect on the date of this Preliminary Official Statement (the "Rule"), this document constitutes an "official statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

The information set forth or included in this Official Statement has been provided by the District and from other sources believed by the District and the Purchaser to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer described herein since the date hereof. The Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation 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 connection with 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. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Issuer's undertaking to provide certain information on a continuing basis.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with 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.

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the District, its Financial Advisor, or the Purchaser 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, or the insurer, if any, and its municipal bond insurance policy described herein under the heading "BOND INSURANCE", as such information has been provided by DTC and the bond insurer, respectively.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the Purchaser. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the adequacy or accuracy of this document and any representation to the contrary is a criminal offense.

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

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## SELECTED DATA FROM THE PRELIMINARY OFFICIAL STATEMENT

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

<b>The Issuer</b>	The Harris County Water Control and Improvement District No. 1 (the "Issuer" or "District") was created on May 1, 1939, by the State Board of Water Engineers (a State Agency that was a predecessor of the Texas Commission on Environmental Quality) pursuant to Article XVI, Section 59 of the Texas Constitution, and operates under provisions of Chapters 49 and 51 of the Texas Water Code, as amended, and other general statutes of Texas. The first board meeting of the lawfully appointed Board of Directors was on or about May 25, 1939. The first bonds were sold July 20, 1939. The District is located in an unincorporated area north of Baytown, Texas (the "City") as well as the extraterritorial jurisdiction of the City. The District consists of 2,064 acres and has a total of 2,568 connections and a population of 7,872. The District is administered by a five member Board of Directors who are elected by voters in the District. The District is a completely built out District with no developer participation.
<b>The Bonds</b>	The Bonds are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission of Environmental Quality (the "TCEQ Order"), a bond election held November 3, 2015, and an order (the "Order") adopted by the Board of Directors of the Harris County Water Control and Improvement District No. 1 (the "District" or the "Issuer") on December 14, 2021, being the date of sale of the Bonds.
<b>Redemption</b>	The District reserves the right to redeem the Bonds maturing on and after February 15, 2032, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2031 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar will be BOKF, NA, Dallas, Texas.
<b>Security for Payment</b>	The Bonds are payable from an annual ad valorem tax levied, without limitation as to rate or amount, on all taxable property located within the District. 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.
<b>Book-Entry-Only System</b>	The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment and the method and transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings, and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and Appendix B - Form of Opinion of Bond Counsel" herein.)
<b>Qualified Tax-Exempt Obligations</b>	The District will designate the Bonds as "Qualified Tax-Exempt obligations" for financial institutions. (See "TAX MATTERS- Qualified Tax-Exempt Obligations" herein.)
<b>Use of Bond Proceeds</b>	Proceeds from the sale of the Bonds will be used for the purpose of paying contractual obligations of the District for (1) purchasing, constructing, acquiring, owning, leasing, operating, repairing, improving, or extending works, improvements, facilities, plants, equipment, and appliances for the District's waterworks, and sanitary sewer system, as well as all expenses in any manner incidental thereto (the currently intended projects being described in the engineer's report filed in the office of the District), and (2) paying the costs of any credit agreements executed in connection with the bonds and paying such expenses as are incidental to the administration and financing of the District. (See "THE BONDS - Use of Bond Proceeds" herein.)

<b>Ratings</b>	A municipal bond rating application has been made to S&P Global Ratings (“S&P”). The outcome of the results will be made available as soon as possible. (See “OTHER PERTINENT INFORMATION - Ratings” herein.)
<b>Bond Insurance</b>	The District has made application to a municipal bond insurance company to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. (See “BOND INSURANCE” and “BOND INSURANCE GENERAL RISKS” herein.)
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Future Bond issues</b>	The District has no plans for any other debt issues in the next 12 months.
<b>Delivery</b>	When issued, anticipated on or about January 12, 2022.
<b>Legality</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Johnson Petrov LLP, Bond Counsel, Houston, Texas.

(The remainder of this page intentionally left blank.)

## PRELIMINARY OFFICIAL STATEMENT

relating to

**\$8,150,000**

**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**(A political subdivision of the State of Texas located in Harris County, Texas)**  
**Unlimited Tax Bonds, Series 2022**

### INTRODUCTORY STATEMENT

This Official Statement, including the schedule and the appendices hereto, provides certain information in connection with the issuance by the Harris County Water Control and Improvement District No. 1 (the "District" or "Issuer") of its \$8,150,000 Unlimited Tax Bonds, Series 2022 (the "Bonds") identified on the cover page.

The District is a political subdivision of the State of Texas and the Bonds are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission of Environmental Quality (the "TCEQ Order"), a bond election held November 3, 2015, and an order (the "Order") to be adopted by the Board of Directors of the Harris County Water Control and Improvement District No. 1 (the "District" or the "Issuer") on December 14, 2021, being the date of sale of the Bonds (see "THE BONDS – Authority for Issuance" herein).

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** A copy of such documents may be obtained upon request from the District or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order.

### INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the "State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Order GA-13 (relating to detention in county and municipal jails) and Executive Order GA-37 (related to migrant transport). Executive order GA-38 combines several previous executive orders into one order and continues the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from: (1) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization, and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals and similar facilities) if the public or private entity that has adopted such requirement receives public funds through any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor. Additional

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

In addition to the actions by the State and federal officials, certain local officials, including the District and Harris County, Texas, have declared a local state of disaster and have issued “shelter-in-place” orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the District and Harris County. These negative impacts may reduce or otherwise negatively affect ad valorem tax revenues which are pledged as security for the Bonds. The District, however, cannot predict the effect of the continued spread of COVID-19 will have on the finances or operations and maintenance of the District.

The District collects revenue from the sale of water and the collection of sewage on business activity. Actions taken to slow the Pandemic are expected to continue to reduce economic activity within the District on which the District collects taxes, charges, and fees. A reduction in the collection of utility system revenue, and may negatively impact the District’s operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased District contributions to fund or pay retirement and other post-employment benefits in the future.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition, and the effect could be material.

### **Convening of the Texas Legislature**

On January 12, 2021, the 87th Texas Legislature convened in general session which adjourned on May 31, 2021. The Texas Governor called a first special session which began July 8, 2021 and concluded on August 6, 2021. The Governor called a second special session which began on August 7, 2021 and concluded on September 2, 2021. The Governor called a third special session which convened on September 20, 2021, and the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the District and the financial condition of the District. The District makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed and final legislation for any developments applicable to the District.

## **THE BONDS**

### **General Description**

Interest on the Bonds will accrue from December 15, 2021 (the “Dated Date”) and is payable August 15, 2022, and each February 15 and August 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as Cede & Co., as the paying agent to DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial paying agent/registrars for the Bonds shall be BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”). (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

If the specified date for any payment of principal of or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent for banking institutions generally in the city in which Designated Payment Transfer Office of the Paying Agent is located, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

### **Redemption Provisions of the Bonds**

The District reserves the right to redeem the Bonds maturing on and after February 15, 2032, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the redemption of par plus accrued interest to the date of redemption.

## **Selection of Bonds to be Redeemed**

The Bonds of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Bonds to be partially redeemed must be surrendered in exchange for one or more new Bonds for the unredeemed portion of the principal. If less than all of the Bonds are to be redeemed, the District will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bonds, or portion thereof, to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

## **Notice of Redemption of the Bonds**

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be Outstanding.

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 of any Bond, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised or 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 DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and 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 the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See "THE BONDS - Book-Entry-Only System" herein).

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## Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used for the purpose of paying contractual obligations of the District for (1) purchasing, constructing, acquiring, owning, leasing, operating, repairing, improving, or extending works, improvements, facilities, plants, equipment, and appliances for the District's waterworks, and sanitary sewer system, as well as all expenses in any manner incidental thereto (the currently intended projects being described in the engineer's report filed in the office of the District), and (2) paying the costs of any credit agreements executed in connection with the bonds and paying such expenses as are incidental to the administration and financing of the District.

I.	Construction Costs	
a.	Developer Contribution Items	\$0
b.	District Items	
i.	Wastewater Treatment Plant Phase 1 Improvements	\$2,545,455
ii.	Wastewater Treatment Plant Phase 2 Improvements	327,586
iii.	Sanitary Sewer Improvements	136,818
iv.	Waterline Improvements Phase 1	1,868,182
v.	Waterline Improvements Phase 2	1,227,727
vi.	Contingencies <sup>(1)</sup>	610,577
vii.	Engineering <sup>(2)</sup>	609,755
viii.	Survey, Geotech CMT <sup>(2)</sup>	480,300
ix.	Total District Items	<u>\$7,806,400</u>
c.	Total Construction Costs	\$7,806,400
II.	Nonconstruction Costs	
a.	Legal Fees <sup>(3)</sup>	\$101,875
b.	Fiscal Agent Fees <sup>(4)</sup>	53,800
c.	Bond Discount (1%)	81,500
d.	Bond Issuance Expenses	37,900
e.	Bond Application Report Costs	40,000
f.	Attorney General Fee (0.10% or \$9,500 max.)	8,150
g.	TCEQ Bond Issuance Fee (0.25%)	<u>20,375</u>
h.	Total Nonconstruction Costs	343,600
III.	Total Bond Issue Requirement	\$8,150,000

<sup>(1)</sup> Includes \$234,000 for Item No. i, \$44,700 for item No. ii, \$23,055, for Item No iii, \$180,500 for Item No. iv, \$127,500 for Item No. v.

<sup>(2)</sup> Includes \$36,300 for Item No. i, \$34,500 for Item No. ii, \$34,500 for Item No. iii, \$212,500 for Item No. iv, \$162,500 for Item No. v.

<sup>(3)</sup> According to contract provided and application material, legal fees are based on hourly rate, not to exceed 1.25% of the principal.

<sup>(4)</sup> According to contract provided, fiscal agent fees are based on a base fee of \$5,000, plus \$15.00 per \$1,000 of bonds sold up to \$1,000,000, plus \$10.00 per \$1,000 on the bonds between \$1,000,000 and \$2,500,000, plus \$5.50 per \$1,000 on the bonds between \$2,500,000 and \$5,000,000, plus \$2.00 per \$1,000 on the bonds between \$5,000,000 and \$10,000,000, plus \$1.00 per \$1,000 on bonds issued above \$10,000,000.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the Texas Commission on Environmental Quality (the "TCEQ"). In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer and others have advised the District that the proceeds of the sale of the Bonds should be sufficient to finance the costs of acquisition or construction of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

## Authority for Issuance

The Bonds are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission of Environmental Quality (the "TCEQ Order"), a bond election held November 3, 2015, and the Order.

## Source of and Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. 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 Board covenants in the Order that, while any of the Bonds are outstanding and the District is in existence, it will levy and assess a continuing ad valorem tax upon each \$100 valuation of taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide for the payment of principal on the Bonds when due or the redemption price at any earlier required redemption date, to pay when due other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The Board additionally covenants in the Order to timely assess and collect such tax. The net proceeds from taxes levied to pay the District's debt service are required to be placed in a special account of the District designated as the "Bond Fund" and used solely to pay principal and interest on the Bonds, the Outstanding Bonds (as hereinafter defined), and on any additional bonds payable from taxes which may be issued, as well as fees and expenses of the Paying Agent/Registrar and expenses of assessing and collecting such tax.

### **Annexation and Consolidation**

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any municipality comprises that municipality's extraterritorial jurisdiction ("ETJ"). The size of an ETJ depends in part on the municipality's population. With certain exceptions, a municipality may annex territory only within the confines of its ETJ. When a municipality annexes additional territory, the municipality's ETJ expands in conformity with such annexation.

The District lies within the ETJ of the City of Baytown, Texas (the "City"), a home rule municipality. The District may not be annexed for full purposes by the City except as may be specifically authorized by Chapter 43, Local Government Code, as amended. Any authorized annexation is subject to compliance by the City with various requirements of Chapter 43, Local Government Code. Such requirements include the requirement that the City hold an election in the District whereby the qualified voters of the District approve the proposed annexation. Further, if the voters in the area to be annexed do not own more than 50% of the land in the area, a petition signed by more than 50% of the landowners consenting to the annexation is also required. If the District is annexed, the City must assume the District's assets and obligations (e.g., the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation A district (such as 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, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of annexation or the ability of any city to make debt service payments on the Bonds should annexation occur.

The Bonds are obligations solely of the District and are not obligations of the Goose Creek Consolidated Independent School District, Harris County, Texas, the State of Texas, or any political subdivision or entity other than the District.

### **Payment Record**

The District has never defaulted on the timely payment of its general obligation indebtedness.

### **Legality**

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Johnson Petrov LLP, Bond Counsel, Houston, Texas.

### **Defeasance of the Bonds**

The Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision or a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the

firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

### **Default and Remedies**

The Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision or a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Order.

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

### **Outstanding Debt**

In addition to bonds issued by the District that have been retired or refunded, the District has previously issued \$2,215,000 Unlimited Tax Refunding Bonds, Series 2013 ("Series 2013 Bonds") and \$7,850,000 Unlimited Tax Bonds, Series 2017 ("Series 2017 Bonds"). As of November 1, 2021, \$510,000.00 of the Series 2013 Bonds and \$6,740,000 of the Series 2017 Bonds remain outstanding (the "Outstanding Bonds"). The District has timely made payments due on the Outstanding Bonds.

### **Issuance of Additional Debt**

The District may issue bonds necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes (other than refunding bonds), the District's voters. Following the issuance of the Bonds, the District will have no authorized unissued unlimited tax bonds as authorized by the District's voters. The District also has the right to enter into certain other obligations including the issuance of revenue bonds and notes, bond anticipation notes, tax anticipation notes without voter approval, and refunding bonds to refund outstanding debt. Neither Texas law nor the Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds.

### **Amendments**

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the rate of interest thereon, or the redemption price thereof, change the place or places at or the coin or currency in which any Bond or 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 amendment, addition, or waiver.



**SOURCES AND USES OF FUNDS**

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

**Sources of Funds**

Par Amount	\$ _____
Accrued Interest on the Bonds	_____
[Net] Original Issue Premium (if any)	_____
<b>Total Sources of Funds</b>	<b>\$ _____</b>

**Uses of Funds**

Deposit to the Construction Fund	\$ _____
Cost of Issuance (Including Bond Insurance, if any)	_____
Accrued Interest Deposit to Bond Fund	_____
Additional Proceeds Deposit to the Bond Fund	_____
<b>Total Uses of Funds</b>	<b>\$ _____</b>

**INVESTMENT CONSIDERATIONS**

**General**

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

**Factors Affecting Taxable Values and Tax Payments**

*Economic Factors.* A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District. The market value of such homes is related to general economic conditions affecting the demand for residences. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected.

*National Economy.* The District cannot predict what impact, if any, a downturn in the local housing market and the national housing market and a continued downturn in the national financial markets may have on the Houston market generally and the District specifically, or the maintenance of assessed values in the District.

*Credit Markets and Liquidity in the Financial Markets.* Interest rates and the availability of mortgage funding have a direct impact on single-family housing activity. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds. In addition, since the District is located approximately 25 miles northeast of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston or decline in real estate and financial markets in the United States could adversely affect the District and restrain the growth of the District's property tax base.

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

*Severe Weather.* The District is located approximately 40 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and

improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability of occurrence (i.e., “500-year flood” events) since 2015. If the District were to sustain damage to its facilities as a result of such a storm (or any other severe weather event) requiring substantial repair or replacement, or if substantial damage to taxable property within the District were to occur as a result of a severe weather event, the investment security of the Bonds could be adversely affected.

*Specific Flood Type Risks.* The District may be subject to the following flood risks:

*Ponding (or Pluvial) Flooding* – Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

*Riverine (or Fluvial) Flooding* – Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

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

*Harris County Floodplain Regulations.* As a direct result of Hurricane Harvey, Harris County adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harris County regulations took effect January 1, 2018. The Harris County floodplain regulations govern construction projects in unincorporated Harris County and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally, the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation. The new and amended Harris County regulations may have a negative impact on new development in and around the District as well as on the rehabilitation of existing homes impacted by flooding or other natural disasters.

### **Continuing Compliance with Certain Covenants**

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

### **Environmental Regulation**

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

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

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

**Air Quality Issues:** Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller,

Montgomery and Liberty Counties—has been designated a nonattainment area under three (3) separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the “1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a “serious” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels. The HGB Area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six (6) counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four (4) categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR was effective June 22, 2020, and is currently the subject of ongoing litigation.

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

### **Future and Proposed Legislation**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation, including any proposals that may arise in the upcoming 87th Texas Legislature to convene on January 12, 2021.

### **Marketability**

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

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Order, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission (the “SEC”). Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

## **Record Date**

The record date ("Record Date") for determining the registered owner entitled to receive the interest payable on a Bond on any interest payment date means the last business day of the month next preceding each interest payment date. 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 will be established by the Paying Agent/Registrar.

## **Special Record Date for Interest Payment**

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "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 registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last day next preceding the date of mailing of such notice.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

## **Future Registration**

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

## **Limitation on Transfer of Bonds**

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

## **Replacement Bonds**

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

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

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 Paying Agent/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).

Redemption proceeds, principal, premium, if any, 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 the Paying Agent/Registrar, on payment 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal premium, if any, and interest 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 the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity 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, the Financial Advisor, and the Underwriters believe to be reliable, but none of the District, the Financial Advisor, or the Underwriters take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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

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

### **THE DISTRICT**

#### **General**

The District was created on May 1, 1939, by the State Board of Water Engineers (a State Agency that was a predecessor of the Texas Commission on Environmental Quality) pursuant to Article XVI, Section 59 of the Texas Constitution, and operates under provisions of Chapter 51 of the Texas Water Code, as amended, and other general statutes of Texas. Chapter 51 establishes the purposes of water control and improvement districts, which, among other things, include the control, storage, and distribution of water, and the protection, preservation, and restoration of the sanitary condition of water within the state. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "Commission"), as well as other local, state and federal regulatory agencies.

The first board meeting of the lawfully appointed Board of Directors was on or about May 25, 1939. The first bonds were sold July 20, 1939. The District is located in an unincorporated area north of Baytown, Texas (the "City") and within the City's extraterritorial jurisdiction. The District consists of 2,064 acres and has a total of 2,568 connections and a population of 7,872. The District is administered by a five member Board of Directors who are elected by voters in the District. The District is a completely built out District with no developer participation.

The District presently has 11 full-time employees engaged in administrative, operations and maintenance functions. The District provides retirement, disability and death benefits for all of its full-time employees through a non-traditional defined benefits plan in the statewide Texas County and District Retirement System. See "Table 10 - Employee's Pension Plan and Other Post-Employment Benefits" in Appendix A hereto for a description of the plan, employee and District contributions to the plan and the plan's funding status. The District offers retirees the option to purchase insurance through the District's health plan, but retirees must pay 100% of the premiums associated with their coverage.

#### **Annexations**

There are currently no pending annexations in the District.

### **THE SYSTEM**

#### **Source of Water Supply**

The District entered into an agreement with the Baytown Area Water Authority ("BAWA") in September, 1993, to purchase at least 850,000 gallons of water per day at a minimum cost of one (\$1.00) per one thousand (1,000) gallons and that such purchases shall begin no later than December 31, 1994. The cost of the water has increased periodically and was \$2.95 per one thousand gallons during the Fiscal Year Ending September 30, 2021. The District's cost for such water during the current year was \$445,793.15. The District purchases approximately 70% of its water from BAWA with the balance of water coming from District owned wells.

#### **Subsidence District Requirements**

The District is within the boundaries of the Harris-Galveston Coastal Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan, as amended (the "1999 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District's groundwater withdrawals must comprise no more than 20% of the District's total water demand. Beginning in January 2001, a disincentive fee was applied to any groundwater withdrawn that constitutes greater than 20% of the District's total water demand. The

District annually purchases groundwater credits from the Subsidence District to allow the District to use groundwater for up to a total of 50% of the District's total water demand. The District is in compliance with the 1999 Plan.

### **Source of Wastewater Treatment**

The District owns and operates a permanent wastewater treatment plant with a present capacity totaling 2,350,000 gpd and eight lift stations. The Peak capacity is 9.0 MGD. Based upon a design criteria of 300 gpd per single family connection, the capacity is adequate to service approximately 7,830 connections. The District currently has 2,568 connections in district sewer connections, and 220 out of district sewer connections for a total of 2,788 sewer connections.

### **BOND INSURANCE**

The District has made application to municipal bond insurance companies (the "Insurer") to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy (the "Policy"). No representation is hereby made that the District will use municipal bond insurance in connection with the issuance of the Bonds. If the District obtains a commitment from the Insurer to provide the Policy, the final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Policy.

### **BOND INSURANCE GENERAL RISKS**

The District has applied for a Policy to guarantee payment of the Bonds. The District has yet to determine whether a Policy will be purchased with the Bonds. If a Policy is purchased, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy may insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bond owner as a voidable preference under applicable bankruptcy law may be covered by the Policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the 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 Insurer without appropriate consent. The Insurer may direct and must consent to any remedies that the Paying Agent/Registrar exercises and the Insurer's consent may be required in connection with amendments to any applicable Bond documents.

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

If a Policy is acquired, the long-term rating on the Bonds will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Bonds, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. (See the disclosure described in "RATING" herein.)

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer; the remedies available may be limited by applicable bankruptcy law. Neither the District, the Purchaser, nor its Financial Advisor has made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein.

### **CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS**

Moody's Investors Services, Inc., S&P Global Ratings ("S&P"), and Fitch Ratings, Inc. (the "Rating Agencies") have, since 2008, downgraded, and/or placed on negative credit watch, the claims-paying ability and financial strength of all providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of municipal bond insurers.



## INVESTMENT POLICIES

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change.

### Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

### Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

### Current Investments

**TABLE 1**

As of September 30, 2021, the District held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash, Money Markets, and Certificates of Deposit	\$223,309.82	100.00%
Maintenance Reserve Fund	2,362,592.19	
Bond Construction Fund	<u>2,441,488.90</u>	
<b>Total Investments</b>	<b><u>\$5,027,390.91</u></b>	

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

## AD VALOREM TAX PROCEDURES

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, Outstanding Bonds,, and any additional bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. The District agrees in the Order to levy such a tax from year- to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See "TAX RATE LIMITATIONS."

### Property Tax Code and County Wide Appraisal District

The Texas *Property Tax Code* (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, school districts, and conservation and reclamation districts such as the District that participate in the appraisal district and of the county. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. All taxing units within Harris County, including the District, are included in the Harris County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board. The District must use the appraisal roll as approved by the Harris County Appraisal Review Board to establish its tax roll and tax rate.

### Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all property with a tax situs in the District is subject to taxation by the District; however, no effort is made by the District to collect taxes on tangible or intangible personal property not devoted to commercial or industrial use. 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 non-profit cemeteries; farm products owned by the producer; and certain property owned by charitable, religious, scientific, literary, student *housing*, veterans, youth, development or fraternal organizations. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and windpowered energy devices; most individually owned automobiles; an exemption from \$5,000 to a maximum of \$12,000 for real and personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; and certain classes of intangible property.

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. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in- transit." "Goods-in-transit" is defined by Section 11.253 of the Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year except that a taxing unit may not tax such goods-in-transit in a tax year that begins on or after January 1, 2012 unless the governing body of the taxing unit took such official action on or after October 1, 2011. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

### Residential Homestead Exemptions

The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The Board has not granted any residential homestead exemptions except as discussed below. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of certain persons who are disabled or at least 65 years old, to the extent of \$3,000 of appraised value or more. The District is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District. The Board has granted such elderly and disabled exemptions in the amount of \$50,000 of assessed valuation for the 2021 tax year.

With respect to a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability, State law exempts from taxation the total appraised value (100%) of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, and exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

## **Tax Abatement**

Harris County, Texas may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District may enter into tax abatement agreements with owners of real property within the District for up to ten (10) years, agreeing not to levy taxes on all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date and the District does not expect any area within the District to be so designated in the foreseeable future.

## **Valuation of Property for Taxation**

Generally, all taxable property in the District must be appraised by the Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either for replacement cost or the market data method of valuation may be used, whichever is appropriate.

Certain land may be appraised at less than market value under the Property Tax Code. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The Property Tax Code permits land designated for agricultural use (including wildlife management) (Section 1-d), open space, or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

## **Reappraisal of Property after Disaster**

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised. Section 11.35 of the Property Tax Code clarifies that purely non-physical economic damage to property is not eligible for this temporary tax exemption.

## **Tax Payment Installments for Certain Property in Natural Disaster Area**

Certain qualified taxpayers, including, (1) owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster; and (2) owners of property owned or leased by a business entity with not more in gross receipts than the amount calculated by Section 31.032(h) of the Property Tax Code and located within a natural disaster area whether or not the property was damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

## **District and Taxpayer Remedies**

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll

has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

### **Levy of Taxes and Rollback of Operations and Maintenance Tax**

The rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations.

The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District.

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

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

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

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

*The District.* A determination of the classification of the District will be made by the Board of Directors of the District on an annual basis. For the 2021 tax year a Developing District status was determined, and the District adopted its tax rate in accordance with the requirements for a Developing District. The District cannot give any assurances as to what its classification will be at any point in time in the future. The District has statutory authority to levy and collect an annual ad valorem tax for maintaining and operating the District's facilities and for paying administrative expenses of the District. Such maintenance tax, as authorized by the District's voters, may not exceed \$0.10 per \$100 assessed valuation. Such a tax is in addition to debt service taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds and any additional tax bonds which may be issued in the future.

### **Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due upon receipt of a bill therefore, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. 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 a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain

circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent and as an alternative to the penalty described in the foregoing sentence, an additional penalty of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. In past years, District's contract with its delinquent tax collection attorney specified a twenty percent (20%) additional penalty. A delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. The District may waive penalties and interest on delinquent taxes only if an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. Additionally, the owner of a residential homestead property who 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.

### **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on 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 each state and 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. 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.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years of foreclosure) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

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

## **THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT**

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Harris County. The Appraisal District is governed by a board of six directors appointed by members of the governing bodies of various political subdivisions within Harris County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

The District does not tax personal property not used in the production of income (excluding manufactured or mobile homes), such as personal automobiles.

The District does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Code.

The District collects its own taxes and it does not allow split payments of taxes or give discounts for early payment of taxes.

The District does tax Goods-in-Transit and took official action on October 11, 2011 to continue the taxation of Goods-in-Transit in the tax year 2012 and beyond.

The District does tax freeport goods.

The District grants an exemption of \$50,000 of the appraised value of the residential homestead for taxpayers at least 65 years of age or disabled.

The District does not have any tax abatements.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest<sup>(b)</sup></u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12% <sup>(a)</sup>	6%	18%

<sup>(a)</sup> Excludes an additional penalty of 20% assessed in July if taxes are not paid in full by June 30th of the year in which they become delinquent.

<sup>(b)</sup> Interest continues to accrue after August 1 at the rate of 1 % per month and the interest remains at 6% until paid.

## TEXAS LEGISLATURE

The 87th Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021. Additionally, the Governor called a special session on July 8, 2021, a second special session on August 7, 2021 and a third special session on September 20, 2021. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda. During a special session, the Texas Legislature may enact laws that materially change current law as it relates to the District and its finances. The District makes no representation regarding any actions the Texas Legislature may take.

## TAX MATTERS

### Tax Exemption

The delivery of the Bonds is subject to the opinion of Johnson Petrov LLP, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be an item of preference for purpose of the federal alternative minimum tax. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

In rendering the foregoing opinions, Bond Counsel will rely upon the Sufficiency Certificate of the Financial Advisor regarding the sufficiency of the deposit to the Escrow Fund on the date of closing and rely upon the representations and certifications of the Issuer made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Bonds. The

Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

## **Tax Changes**

Existing law may change to reduce or eliminate the benefit to Bond holders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

## **Ancillary Tax Consequences**

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

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

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

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

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable Bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable Bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial

institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District will designate the Bonds as “qualified tax-exempt obligations” and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will file certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general included in Table 1 of the Official Statement, Tables 1 through 9 in Appendix A attached hereto, and Appendix D attached hereto. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2021.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s EMMA Internet Web site or filed with the SEC, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A and in Appendix C or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District’s current fiscal year end is September 30. Accordingly, it must provide updated information by the last day in March in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change with the MSRB.

### **Notice of Certain Events**

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (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, as the case may be; (7) modifications to rights of holders 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, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of 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 paying agent/registrars or the change of name of a paying agent/registrars, 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 any such Financial Obligation of the District, 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 any such Financial Obligation of the District, any of which reflect financial difficulties. In the Order, the District will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “Annual Reports.” Neither the Bonds nor the Order make provision for credit enhancement (although the District has applied for a municipal insurance policy on the Bonds), or liquidity enhancement.

For these purposes, (a) any event described in clause (12) in 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 existing governing body and officials or officers 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, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

### **Availability of Information**

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its 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 to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data 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 information and data provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchaser from lawfully purchasing or selling Bonds, respectively, in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

During the past five years, the District has complied in all material respects with its continuing disclosure agreement made in accordance with the SEC Rule 15c2-12.

## **LEGAL MATTERS**

### **Legal Opinions and No-Litigation Certificate**

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Order, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. In its capacity as Bond Counsel, Johnson Petrov LLP, Houston, Texas has reviewed (except for numerical, statistical and technical data) the information under the captions "THE BONDS" (except under the subcaptions, "Use of Bond Proceeds", "Sources and Uses of Funds", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The legal fees of such firm is contingent upon the sale and delivery of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and initial delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

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.

## **Litigation**

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

## **Legal Investments 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, counties, 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 makes no representation that the Bonds will be acceptable to banks, savings and loans associations, or public entities for investment purposes or to secure deposits of public 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.

## **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. It is important to note that the District's actual results could differ materially from those in 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 and 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 many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

## **OTHER PERTINENT INFORMATION**

### **Registration and Qualification of Bonds for Sale**

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **Ratings**

Municipal bond rating application for the Bonds has been made to S&P. The outcome of the results will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The municipal bond rating is not a recommendation to buy, sell, or hold the Bonds. The rating fees of S&P will be paid by the District.

## **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

## **Financial Advisor**

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with 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.

## **Winning Bidder**

After requesting competitive bids for the Bonds, the District accepted the bid of \_\_\_\_\_ (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net original reoffering premium of \$\_\_\_\_\_, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser

## **Certification of the Official Statement**

At the time of payment for and delivery of the Bonds, the Purchaser will be furnished a certificate, executed by proper officers of the District, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

## **Information from External Sources**

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

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**Concluding Statement**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or 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 of solicitation. The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Certificates by the Purchaser.

This Official Statement will be approved by the Board for distribution in accordance with the provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1

/s/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

/s/ \_\_\_\_\_  
Secretary, Board of Directors

**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2021 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 415,526,717
Less Exemptions:	
Optional Over-65 or Disabled.....	\$ 25,412,895
Prorated.....	-
Total.....	36,566,535
Solar.....	83,025
Personal Use Vehicle (Leased).....	-
Under \$500.....	502
Veterans' Exemptions.....	2,875,464
Commerce.....	-
Freeport.....	15,127,293
<b>TOTAL EXEMPTIONS</b> .....	<u>\$ 80,065,714</u>
2021 Certified Assessed Value of Taxable Property.....	<u>\$ 335,461,003</u>

*Source: Harris County Appraisal District and San Jacinto Tax Service.*

**GENERAL OBLIGATION BONDED DEBT**

*(as of December 1, 2021)*

**General Obligation Debt Principal Outstanding**

Unlimited Tax Refunding Bonds, Series 2013	\$ 510,000
Unlimited Tax Bonds, Series 2017	6,740,000
Unlimited Tax Bonds, Series 2022	<u>8,150,000</u> *
Total Net General Obligation Debt Outstanding	<u>\$ 15,400,000</u> *
2021 Net Assessed Valuation	\$ 335,461,003
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	4.59% *
Population: 2000 - 7,089; 2010 - 7,522; 2020 - 7,718; est 2021 - 7,872	
Per Capita Certified Net Taxable Assessed Valuation - \$42,614.46	*
Per Capita Net General Obligation Debt Principal - \$1,956.30	*

*\*Preliminary; subject to change.*

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

**TABLE 2**

Fiscal Year Ending (9/30)	Current Total Outstanding Debt	The Bonds*			Total Combined Debt Service
		Principal	Interest	Total	
2022	\$ 800,145	-	\$ 120,524	\$ 120,524	\$ 920,669
2023	802,445	\$ 45,000	205,938	250,938	1,053,383
2024	538,195	330,000	200,313	530,313	1,068,508
2025	542,470	340,000	190,263	530,263	1,072,733
2026	541,370	350,000	179,913	529,913	1,071,283
2027	539,970	365,000	169,188	534,188	1,074,158
2028	538,270	375,000	158,088	533,088	1,071,358
2029	541,195	385,000	146,688	531,688	1,072,883
2030	538,745	395,000	134,988	529,988	1,068,733
2031	540,920	410,000	122,913	532,913	1,073,833
2032	542,364	420,000	112,563	532,563	1,074,926
2033	542,776	430,000	104,063	534,063	1,076,839
2034	542,060	435,000	95,413	530,413	1,072,473
2035	540,238	445,000	86,613	531,613	1,071,850
2036	542,563	455,000	77,328	532,328	1,074,891
2037	539,275	465,000	67,263	532,263	1,071,538
2038	-	475,000	56,391	531,391	531,391
2039	-	490,000	44,625	534,625	534,625
2040	-	500,000	32,250	532,250	532,250
2041	-	515,000	19,563	534,563	534,563
2042	-	525,000	6,563	531,563	531,563
	<u>\$ 9,173,000</u>	<u>\$ 8,150,000</u>	<u>\$ 2,331,443</u>	<u>\$ 10,481,443</u>	<u>\$ 19,654,443</u>

\*Preliminary; subject to change.

**TAX ADEQUACY (Includes Self-Supporting Debt)**

2021 Freeze Adjusted Net Taxable Assessed Valuation	\$ 335,461,003
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2033)	1,076,839 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.32755 *

\*Preliminary; subject to change. (Includes the Bonds)

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent



**UNAUDITED INTEREST AND SINKING FUND MANAGEMENT INDEX**

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2021	\$ 826,911
2021 Anticipated Interest and Sinking Fund Tax Levy at 95% Collections Produce <sup>(1)</sup>	<u>1,083,539</u>
Total Available for General Obligation Debt	<u>\$ 1,910,450</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/22	<u>920,669</u>
Estimated Surplus at Fiscal Year Ending 9/30/2022 <sup>(1)</sup>	<u>\$ 989,781</u>

<sup>(1)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE\***

(As of January 1, 2022)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding	The Bonds	Total		
2022	\$ 580,000	\$ -	\$ 580,000	\$ 14,820,000	3.77%
2023	600,000	45,000	645,000	14,175,000	7.95%
2024	350,000	330,000	680,000	13,495,000	12.37%
2025	365,000	340,000	705,000	12,790,000	16.95%
2026	375,000	350,000	725,000	12,065,000	21.66%
2027	385,000	365,000	750,000	11,315,000	26.53%
2028	395,000	375,000	770,000	10,545,000	31.53%
2029	410,000	385,000	795,000	9,750,000	36.69%
2030	420,000	395,000	815,000	8,935,000	41.98%
2031	435,000	410,000	845,000	8,090,000	47.47%
2032	450,000	420,000	870,000	7,220,000	53.12%
2033	465,000	430,000	895,000	6,325,000	58.93%
2034	480,000	435,000	915,000	5,410,000	64.87%
2035	495,000	445,000	940,000	4,470,000	70.97%
2036	515,000	455,000	970,000	3,500,000	77.27%
2037	530,000	465,000	995,000	2,505,000	83.73%
2038	-	475,000	475,000	2,030,000	86.82%
2039	-	490,000	490,000	1,540,000	90.00%
2040	-	500,000	500,000	1,040,000	93.25%
2041	-	515,000	515,000	525,000	96.59%
2042	-	525,000	525,000	-	100.00%
Total	<u>\$ 7,250,000</u>	<u>\$ 8,150,000</u>	<u>\$ 15,400,000</u>		

\* Preliminary, subject to change.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2021**

**TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2012-13	241,152,440	15,402,058	6.82%
2013-14	232,780,009	(8,372,431)	-3.47%
2014-15	247,238,890	14,458,881	6.21%
2015-16	251,902,637	4,663,747	1.89%
2016-17	258,405,645	6,503,008	2.58%
2017-18	275,949,806	17,544,161	6.36%
2018-19	297,402,427	21,452,621	7.21%
2019-20	323,920,086	26,517,659	8.19%
2020-21	328,115,162	4,195,076	1.28%
2021-22	335,461,003	7,345,841	2.19%

Source: Harris County Appraisal District and San Jacinto Tax Services

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 4**

	2021	% of Total	2020	% of Total	2019	% of Total
Real, Residential, Single-Family	\$ 243,778,344	58.67%	\$ 237,142,183	57.73%	\$ 221,326,854	55.12%
Real, Residential, Multi-Family	1,265,643	0.30%	1,883,921	0.46%	1,708,320	0.43%
Real, Vacant Lots/Tracts	10,164,617	2.45%	11,007,904	2.68%	10,790,263	2.69%
Real, Acreage (Land Only)	937,014	0.23%	1,027,807	0.25%	1,015,242	0.25%
Real, Farm and Ranch Improvements	297,000	0.07%	270,000	0.07%	280,000	0.07%
Real, Commercial and Industrial	49,080,094	11.81%	53,563,134	13.04%	51,372,495	12.79%
Real & Tangible, Personal Utilities	5,185,273	1.25%	4,895,125	1.19%	4,707,653	1.17%
Tangible Personal, Commercial & Industrial	62,043,750	14.93%	58,897,295	14.34%	68,705,198	17.11%
Tangible Personal, Mobile Homes	5,352,920	1.29%	5,472,765	1.33%	5,235,483	1.30%
Oil and Gas	54,590	0.01%	211,840	0.05%	215,100	0.06%
Special Inventory	804,117	0.19%	566,780	0.14%	514,336	0.14%
Exempt - charitable or religious	36,563,355	8.80%	35,857,959	8.73%	35,675,337	8.88%
<b>Total Appraised Value</b>	<b>\$ 415,526,717</b>	<b>100.00%</b>	<b>\$ 410,796,713</b>	<b>100.00%</b>	<b>\$ 401,546,281</b>	<b>100.02%</b>
<b>Less:</b>						
Optional Over-65 or Disabled	25,412,895		26,707,733		25,857,385	
Prorated	-		27,810		99,836	
Total	36,566,535		35,983,396		35,742,830	
Solar	83,025		20,925		-	
Personal Use Vehicle (Leased)	-		321,280		142,783	
Under \$500	502		4,835		5,950	
Veterans' Exemptions	2,875,464		2,575,188		2,387,270	
Commerce	-		64,722		-	
Freeport	15,127,293		16,975,662		13,390,141	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 335,461,003</b>		<b>\$ 328,115,162</b>		<b>\$ 323,920,086</b>	

Source: Harris County County Appraisal District and San Jacinto Tax Service.

**PRINCIPAL TAXPAYERS 2021**

**TABLE 5**

Name	Type of Business/Property	2021 Net Taxable Assessed Valuation	% of 2021 Assessed Valuation
ZXP Technologies LLC	Wholesale Supplier/Distribution Center	\$ 12,321,063	3.67%
BP Lubricants USA Inc.	Chemical Plant	8,619,840	2.57%
Plastipak Packaging	Industrial Manufacturing	7,063,845	2.11%
ZXP Technologies	Wholesale Supplier/Distribution Center	6,529,030	1.95%
Justin & Brandon Nguyen Inv't Ltd.	Mobile Homes/Parks	5,125,318	1.53%
Pennzoil-Quaker State DBA Sopus	Oil & Gas	3,424,002	1.02%
Tabb Realty LLC	Industrial Manufacturing	3,252,422	0.97%
Tejas Motorsports LLC	Car Dealership	3,237,160	0.96%
CenterPoint Energy Inc.	Electric Utility/Power Plant	3,098,140	0.92%
Total Specialities USA Inc.	Oil & Gas / Energy	2,955,045	0.88%
		<b>\$ 55,625,865</b>	<b>16.58%</b>

Source: Harris County Appraisal District.

**TAX RATE DISTRIBUTION****TABLE 6**

	2021	2020	2019	2018	2017
General Fund	\$ 0.092000	\$ 0.091000	\$ 0.097800	\$ 0.099000	\$ 0.099000
I&S Fund	0.248000	0.249000	0.262200	0.261000	0.311000
Total Tax Rate	<u>\$ 0.340000</u>	<u>\$ 0.340000</u>	<u>\$ 0.360000</u>	<u>\$ 0.360000</u>	<u>\$ 0.410000</u>

Source: Harris County Appraisal District

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of tax, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set for below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2012	241,152,440	0.230000	\$ 554,651	95.12	100.19	9/30/2013
2013	232,780,009	0.220000	512,116	95.01	99.71	9/30/2014
2014	247,238,890	0.220000	543,926	95.16	100.31	9/30/2015
2015	251,902,637	0.220000	554,186	96.42	103.21	9/30/2016
2016	258,405,645	0.410000	1,059,463	95.70	101.69	9/30/2017
2017	275,949,806	0.360000	993,419	95.46	97.50	9/30/2018
2018	297,402,427	0.360000	1,070,649	95.41	99.57	9/30/2019
2019	323,920,086	0.340000	1,101,328	95.10	99.43	9/30/2020
2020	328,115,162	0.340000	1,115,592	92.23	95.77	9/30/2021
2021	335,461,003	0.340000	1,140,567	<i>(In Process of Collections)</i>		9/30/2022

Source: Harris County Appraisal District and San Jacinto Tax Service.

**OVERLAPPING DEBT INFORMATION**

**TABLE 8**

(As of September 30, 2021)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

<b>Taxing Body</b>	<b>Gross Debt (As of 09/30/21)</b>	<b>% Overlapping</b>	<b>Amount Overlapping</b>
Goose Creek Cons ISD	\$ 632,275,123	1.93%	\$ 12,202,910
Harris County	1,443,576,841	0.06%	866,146
Harris County Dept. of Education	20,185,000	0.06%	12,111
Harris County Flood Control	327,927,168	0.06%	196,756
Harris County Hospital District	81,540,000	0.06%	48,924
Harris County Toll Road	-	0.06%	-
Lee College District	37,890,000	1.93%	731,277
Port of Houston Authority	446,699,397	0.06%	268,020
Total Gross Overlapping Debt			<u>\$ 14,326,144</u>
Harris County WC&ID #1			\$ 15,400,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 29,726,144</u> *
Ratio of Gross Direct Debt and Overlapping Debt			8.86% *
Per Capita Gross Direct Debt and Overlapping Debt			\$3,302.90 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\*Preliminary; subject to change. (Includes the Bonds)

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

**TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Fund Balance - Beginning of Year	\$ 2,638,549	\$ 2,335,091	\$ 1,765,743	\$ 1,168,339	\$ 1,026,114
Revenues	\$ 2,987,002	\$ 2,814,561	\$ 2,888,523	\$ 2,822,504	\$ 2,672,566
Expenditures	<u>2,214,392</u>	<u>2,193,738</u>	<u>2,076,747</u>	<u>1,982,735</u>	<u>2,087,975</u>
Excess (Deficit) of Revenues Over Expenditures	\$ 772,610	\$ 620,823	\$ 811,776	\$ 839,769	\$ 584,591
Operating Transfers Out	\$ -	\$ (317,365)	\$ (637,365)	\$ (242,365)	\$ (442,365)
Insurance Proceeds	-	-	394,937	-	-
Total Other Financing Sources (Uses):	\$ -	\$ (317,365)	\$ (242,428)	\$ (242,365)	\$ (442,365)
Prior Year End Adjustment	-	-	-	-	-
Fund Balance - End of Year	<u>\$ 3,411,159</u>	<u>\$ 2,638,549</u>	<u>\$ 2,335,091</u>	<u>\$ 1,765,743</u>	<u>\$ 1,168,340</u>

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the Issuer.

\* The District's unaudited General Fund balance for the fiscal year ending September 30, 2021 was approximately \$2,405,254.72. During the fiscal year ending September 30, 2021 the District expended roughly \$1,000,000 toward for planned and budgeted improvements to its East Houston Water Plant.

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

Governmental Subdivision	2020 Assessed Valuation	% of Actual	2020 Tax Rate
Goose Creek Cons ISD	\$ 16,098,760,914	100%	\$ 1.34110
Harris County	505,415,870,000	100%	0.39156
Harris County Dept. of Education	510,293,030,704	100%	0.00514
Harris County Flood Control	495,555,897,000	100%	0.03142
Harris County Hospital District	495,843,633,862	100%	0.17277
Harris County Toll Road	502,563,071,913	100%	0.00000
Lee College District	16,183,883,356	100%	0.24710
Port of Houston Authority	492,097,433,000	100%	0.00991

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Harris County WC&ID #1*	11/3/2015	\$ 16,000,000	\$ 16,000,000	
Goose Creek Cons ISD	None			
Harris County	11/3/2015	\$ 2,576,000,000	\$ 1,769,059,000	\$ 806,941,000
Harris County Dept. of Education	None			
Harris County Flood Control	8/25/2018	\$ 2,814,000,000	\$ 530,700,000	\$ 2,283,300,000
Harris County Hospital District	None			
Harris County Toll Road	9/13/1983	\$ 900,000,000	\$ 884,852,000	\$ 15,148,000
Lee College District	None			
Port of Houston Authority	None			

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

\* Assumes the issuance of the Bonds contemplated in this issuance.

**INSURANCE**

**TABLE 10**

At September 30, 2021, the District had property coverage of \$10,800,606 with TML. The District also had \$1,000,000 of liability insurance and \$1,000,000 excess liability insurance with Allied World Speciality. The District's worker's compensation coverage was with Accident Fund Insurance.

Source: The Issuer's Annual Financial Reports and information provided by the Issuer.

**WATERWORKS AND SEWER SYSTEM REVENUE BOND DEBT DATA**

(As of September 30, 2021)

-NONE-

**REVENUE BONDS AUTHORIZED BUT UNISSUED**

(As of September 30, 2021)

-NONE-

**PLANT, PROPERTY AND EQUIPMENT**

(As of September 30, 2020)

Land	\$ 105,132
Construction in Progress	634,224
Capital Assets Not Being Depreciated	<u>739,356</u>

**Capital Assets, Net of Accumulated**

**Depreciation:**

Buildings	86,730
Water System	2,626,753
Sewer System	6,832,317
Leaed Equipment	434,286
Machinery and Equipment	185,277
Furniture & Fixtures	1,217
Vehicles	<u>540</u>

**Subtotal** \$ 10,167,120

Accumulated Depreciation

**Total** \$ 10,906,476

Source: The Issuer's Unaudited Annual Financial Reports for Fiscal Year Ending September 30, 2020.

**WATER SUPPLY**

The District entered into an agreement with the Baytown Area Water Authority ("BAWA") in September, 1993, to purchase at least 850,000 gallons of water per day at a minimum cost of one (\$1.00) per one thousand (1,000) gallons and that such purchases shall begin no later than December 31, 1994. The cost of the water has increased periodically and was \$2.95 per one thousand gallons during the Fiscal Year Ending September 30, 2021. The District's cost for such water during the current year was \$445,793.15. The District purchases approximately 70% of its water from BAWA with the balance of water coming from District owned wells.

Source: The Issuer's Annual Financial Reports for Fiscal Year Ending September 30, 2020

**WATER RATES**

(Based on Monthly Billing, Rates Effective October 1, 2021)

	<u>New Rates</u>	<u>Old Rates</u>
<u>Water Service - In District</u>		
For 2,000 gallons (minimum)	\$ 15.50	\$ 15.50
Rate per 1,000 Gallons Over Minimum	\$ 6.50	\$ 6.00

Water Service - Out of District

Each out-of-district customer shall be charged a monthly surchare of 1 1/2 times the water rates established in this Section 1-2(a)

Bulk Water Sales for Construction

Minimum of \$40.00 for the First 2,000 gallons, then \$10.00 per 1,000 gallons thereafter.

Fire Lines

Fire lines installed to serve Customers shall be subject to the same fees, charges, and rules as commercial connections, except for water usage fees. The District shall charge a monthly service fee of \$300 per month for each fire line and water usage fees of \$5.00 per 1,000.

Source: The Issuer's Ordinance Adopting Amended Rates and Fees for Services, Adopted September 14, 2021.

**SEWER TREATMENT**

---

Wastewater treatment capacity is provided by a 2.35 MGD wastewater treatment plant owned by the District. The Peak capacity is 9.0 MGD. Based upon a design criteria of 300 gpd per single family connection, the capacity is adequate to serve approximately 7,830 connections. The District currently has 2,568 connections in district sewer connections, and 220 out of district sewer connections for a total of 2,788 sewer connections.

**SEWER RATES**

---

(Based on Monthly Billing, Rates Effective October 1, 2021)

	<u>New Rates</u>	<u>Old Rates</u>
<u>Sewer Service - In District</u>		
(Residential)		
For 2,000 gallons (minimum)	\$ 15.50	\$ 15.50
Rate per 1,000 Gallons Over Minimum (Cap of 18,000 gallons)	\$ 4.50	\$ 4.10
(Commercial)		
For 2,000 gallons (minimum)	\$ 15.50	\$ 15.50
Rate per 1,000 gallons over minimum	\$ 4.50	\$ 4.10

Sewer Service - Out of District

Each out-of-district customer shall be charged a monthly surcharge of 1 1/2 time the wastewater (sanitary sewer) rates established in this Section 1-2(d) with a cap at 18,000 gallons over minimum.

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Source: *The Issuer's Ordinance Adopting Amended Rates and Fees for Services, Adopted September 14, 2021.*

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**APPENDIX B**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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## **Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by Johnson Petrov L.L.P., Bond Counsel, upon delivery of the Bonds, assuming no material changes in facts or law*

WE HAVE ACTED as Bond Counsel in connection with the issuance by Harris County Water Control and Improvement District No. 1 (the "Issuer") of its bonds styled "Harris County Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2022" (the "Bonds"). The Bonds, dated December 15, 2021 (the "Initial Date"), are issued in the aggregate principal amount of \$8,150,000 and mature serially on February 15 in the years and amounts as set forth in the order authorizing the issuance of the Bonds (the "Bond Order").

WE HAVE SERVED AS BOND COUNSEL for the District solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. 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. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. 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.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Directors of the District in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the District; (3) certificates executed by officers of the District relating to the expected use and investment of proceeds of the Bonds and certain other funds of the District, and to certain other facts within the knowledge and control of the District; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the District, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the District enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District. 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.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not an item of preference for purposes of the federal alternative minimum tax. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted in the Bond Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

WE ARE OF THE OPINION that the Bonds are not private activity bonds, as defined in the Code.

WE CALL TO YOUR ATTENTION TO THE FACT THAT the Bonds have been designated as "qualified tax-exempt obligations" for financial institutions as that term is defined by Section 265 of the Code.

The Bonds are obligations solely of the Issuer and are not obligations of the State of Texas, Harris County, City of Baytown, Texas or any other entity.

THE OPINIONS SET FORTH ABOVE are based upon existing law and our knowledge of the facts as of the date hereof. We assume no obligation to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully,

## **APPENDIX C**

### **AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements - not intended to be a complete statement of the Issuer's financial condition. Reference is made to the Annual Financial Report for further information)

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**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2020**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2020**



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**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris County Water Control  
and Improvement District No. 1  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Water Control and Improvement District No. 1 (the "District"), as of and for the year ended September 30, 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.

Board of Directors  
Harris County Water Control and  
Improvement District No. 1

**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 September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of District Contributions – Pension 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

February 9, 2021

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Management's discussion and analysis of Harris County Water Control and Improvement District No. 1's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2020. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, deferred inflows of resources and deferred outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for customer service revenues, tax revenues and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). The budgetary comparison schedule is included as RSI for the General Fund. Additional schedules related to the pension plan and the other postemployment benefits plan are included as RSI as well.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,700,159 as of September 30, 2020. A portion of the District's net position reflects its net investment in capital assets (buildings and equipment as well as the water, sewer and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of Government-wide changes in Net Position:

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 10,753,594	\$ 10,195,151	\$ 558,443
Capital Assets (Net of Accumulated Depreciation)	<u>10,906,476</u>	<u>11,146,998</u>	<u>(240,522)</u>
Total Assets	<u>\$ 21,660,070</u>	<u>\$ 21,342,149</u>	<u>\$ 317,921</u>
Deferred Outflows of Resources	<u>\$ 88,551</u>	<u>\$ 254,601</u>	<u>\$ (166,050)</u>
Bonds and Lease Payable	\$ 8,271,334	\$ 9,124,840	\$ 853,506
Other Liabilities	<u>606,073</u>	<u>804,476</u>	<u>198,403</u>
Total Liabilities	<u>\$ 8,877,407</u>	<u>\$ 9,929,316</u>	<u>\$ 1,051,909</u>
Deferred Inflows of Resources	<u>\$ 171,055</u>	<u>\$ 41,083</u>	<u>\$ (129,972)</u>
Net Position:			
Net Investment in Capital Assets	\$ 8,112,899	\$ 7,487,061	\$ 625,838
Restricted	1,104,088	934,920	169,168
Unrestricted	<u>3,483,172</u>	<u>3,204,370</u>	<u>278,802</u>
Total Net Position	<u>\$ 12,700,159</u>	<u>\$ 11,626,351</u>	<u>\$ 1,073,808</u>

The following table provides a summary of the District's operations for the years ended September 30, 2020, and September 30, 2019.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 1,191,039	\$ 1,069,612	\$ 121,427
Charges for Services	2,598,936	2,374,916	224,020
Other Revenues	<u>183,197</u>	<u>349,796</u>	<u>(166,599)</u>
Total Revenues	<u>\$ 3,973,172</u>	<u>\$ 3,794,324</u>	<u>\$ 178,848</u>
Expenses for Services	<u>2,899,364</u>	<u>2,979,056</u>	<u>79,692</u>
Change in Net Position	<u>\$ 1,073,808</u>	<u>\$ 815,268</u>	<u>\$ 258,540</u>
Net Position, Beginning of Year	<u>11,626,351</u>	<u>10,811,083</u>	<u>815,268</u>
Net Position, End of Year	<u>\$ 12,700,159</u>	<u>\$ 11,626,351</u>	<u>\$ 1,073,808</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**FINANCIAL ANALYSIS OF THE DISTRICT’S GOVERNMENTAL FUNDS**

The District’s combined fund balances as of September 30, 2020, were \$9,886,290, an increase of \$540,390 from the prior year.

The General Fund fund balance increased by \$772,610, primarily due to operating revenues and maintenance tax revenues being higher than operating and capital costs.

The Debt Service Fund fund balance increased by \$59,662, primarily due to the structure of the District’s outstanding debt.

The Capital Projects Fund fund balance decreased by \$291,882. The District used bond proceeds received in a prior year to pay for current year projects.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$175,450 more than budgeted revenues primarily due to higher than expected service and property tax revenues. Actual expenditures were \$436,361 less than budgeted expenditures primarily due to lower than expected personnel expenditures.

**LONG-TERM DEBT ACTIVITY**

As of September 30, 2020, the District had total bond debt payable of \$7,810,000. The changes in the debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Bond Debt Payable, October 1, 2019	\$ 8,355,000
Less: Bond Principal Paid	<u>545,000</u>
Bond Debt Payable, September 30, 2020	<u><u>\$ 7,810,000</u></u>

The District’s Series 2013 Refunding and Series 2017 Bonds carry an underlying rating of “A-” issued and an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual Insurance Corp. These ratings were in effect for the current and prior fiscal years.



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**LONG-TERM DEBT ACTIVITY (Continued)**

As of September 30, 2020, the District had total capital lease payable of \$432,631. The changes in the debt position of the District during the fiscal year ended September 30, 2020, are summarized as follows:

Capital Lease Payable, October 1, 2019	\$	532,168
Less: Capital Lease Principal Paid		99,537
Bond Debt Payable, September 30, 2020	\$	432,631

**CAPITAL ASSETS**

Capital assets as of September 30, 2020, total \$10,906,476 (net of accumulated depreciation) and include land, buildings and equipment, furniture and fixtures, vehicles as well as the water, sewer and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 105,132	\$ 105,132	\$
Construction in Progress	634,224	1,614,765	(980,541)
Capital Assets, Net of Accumulated Depreciation:			
Building	86,730	94,690	(7,960)
Water System	2,626,753	1,335,494	1,291,259
Sewer System	6,832,317	7,244,532	(412,215)
Leased Equipment	434,286	527,761	(93,475)
Machinery and Equipment	185,277	218,345	(33,068)
Furniture and Fixtures	1,217	1,536	(319)
Vehicles	540	4,743	(4,203)
	\$ 10,906,476	\$ 11,146,998	\$ (240,522)

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Water Control and Improvement District No. 1, 125 San Jacinto Avenue, Highlands, TX 77562.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2020**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 3,590,607	\$ 855,958
Investments		222,525
Receivables:		
Property Taxes	40,906	91,367
Penalty and Interest on Delinquent Taxes		
Service Accounts	232,428	
Other	180	496
Net Pension Asset		
Due from Other Funds	51,695	
Prepaid Costs	51,859	75
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	\$ 3,967,675	\$ 1,170,421
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Pension Plan Charges	\$ - 0 -	\$ - 0 -
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 3,967,675	\$ 1,170,421

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 5,537,514	\$ 9,984,079	\$	\$ 9,984,079
	222,525		222,525
	132,273		132,273
		46,053	46,053
	232,428		232,428
	676		676
	51,695	83,626	83,626
	51,934	(51,695)	51,934
		105,132	105,132
		634,224	634,224
		10,167,120	10,167,120
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>	<u>\$ 10,984,460</u>	<u>\$ 21,660,070</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 88,551</u>	<u>\$ 88,551</u>
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>	<u>\$ 11,073,011</u>	<u>\$ 21,748,621</u>

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

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2020**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 153,916	\$
Accrued Compensated Absences	16,710	
Accrued Interest Payable		
Due to Other Funds		51,695
Security Deposits	344,984	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 515,610</b>	<b>\$ 51,695</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 40,906	\$ 121,352
Pension Plan Income		
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 40,906</b>	<b>\$ 121,352</b>
 <b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 51,859	\$
Restricted for Authorized Construction		
Restricted for Debt Service		997,374
Unassigned	3,359,300	
<b>TOTAL FUND BALANCES</b>	<b>\$ 3,411,159</b>	<b>\$ 997,374</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,967,675</b>	<b>\$ 1,170,421</b>
 <b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 59,757	\$ 213,673	\$	\$ 213,673
	16,710		16,710
	51,695	30,706	30,706
	344,984	(51,695)	344,984
		662,872	662,872
		7,608,462	7,608,462
<u>\$ 59,757</u>	<u>\$ 627,062</u>	<u>\$ 8,250,345</u>	<u>\$ 8,877,407</u>
\$	\$ 162,258	\$ (132,273)	\$ 29,985
		141,070	141,070
<u>\$ - 0 -</u>	<u>\$ 162,258</u>	<u>\$ 8,797</u>	<u>\$ 171,055</u>
\$	\$ 51,859	\$ (51,859)	\$
5,477,757	5,477,757	(5,477,757)	
	997,374	(997,374)	
	3,359,300	(3,359,300)	
<u>\$ 5,477,757</u>	<u>\$ 9,886,290</u>	<u>\$ (9,886,290)</u>	<u>\$ - 0 -</u>
<u>\$ 5,537,514</u>	<u>\$ 10,675,610</u>		
		\$ 8,112,899	\$ 8,112,899
		1,104,088	1,104,088
		3,483,172	3,483,172
		<u>\$ 12,700,159</u>	<u>\$ 12,700,159</u>

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

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

Total Fund Balance - Governmental Funds		\$ 9,886,290
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Net Pension Assets, Deferred inflows and outflows of resources related to the pension plan activities are recorded in the government-wide financial statements.		31,107
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,906,476
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District.		178,326
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (30,706)	
Bonds Payable	<u>(8,271,334)</u>	<u>(8,302,040)</u>

Total Net Position - Governmental Activities		<u>\$ 12,700,159</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 316,809	\$ 842,665
Service Revenues	2,467,106	
Penalty and Interest	61,182	42,230
Tap Connection and Inspection Fees	24,680	
Investment and Miscellaneous Revenues	<u>117,225</u>	<u>15,907</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,987,002</u>	<u>\$ 900,802</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Personnel Expenditures	\$ 792,542	\$
Professional Fees	40,517	13,491
Contracted Services	191,265	24,438
Purchased Water Services	541,230	
Utilities	109,779	
Repair and Maintenance	117,944	
Depreciation		
Other	236,261	4,391
Capital Outlay	67,489	
Debt Service:		
Principal	99,537	545,000
Interest	<u>17,828</u>	<u>253,820</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 2,214,392</u>	<u>\$ 841,140</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 772,610	\$ 59,662
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - OCTOBER 1, 2019</b>	<u>2,638,549</u>	<u>937,712</u>
<b>FUND BALANCES/NET POSITION - SEPTEMBER 30, 2020</b>	<u>\$ 3,411,159</u>	<u>\$ 997,374</u>

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



<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,159,474	\$ 31,565	\$ 1,191,039
	2,467,106		2,467,106
	103,412	3,738	107,150
	24,680		24,680
<u>50,065</u>	<u>183,197</u>		<u>183,197</u>
\$ 50,065	\$ 3,937,869	\$ 35,303	\$ 3,973,172
\$	\$ 792,542	\$ (16,896)	\$ 775,646
8,805	62,813		62,813
	215,703		215,703
	541,230		541,230
	109,779		109,779
	117,944		117,944
		641,153	641,153
	240,652		240,652
333,142	400,631	(400,631)	
	644,537	(644,537)	
	<u>271,648</u>	<u>(77,204)</u>	<u>194,444</u>
\$ 341,947	\$ 3,397,479	\$ (498,115)	\$ 2,899,364
\$ (291,882)	\$ 540,390	\$ (540,390)	\$
		1,073,808	1,073,808
<u>5,769,639</u>	<u>9,345,900</u>	<u>2,280,451</u>	<u>11,626,351</u>
\$ 5,477,757	\$ 9,886,290	\$ 2,813,869	\$ 12,700,159

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

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net Change in Fund Balances - Governmental Funds	\$	540,390
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		31,565
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		3,738
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(641,153)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		400,631
This adjustment accounts for the current year activity related to the pension plan and other postemployment benefit plan as well as the associated deferred inflows and outflows of resources.		16,896
Governmental funds report principal payments as expenditures. However, in the Statement of Net Position, principal payments are reported as decreases in long-term liabilities.		644,537
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		77,204
Change in Net Position - Governmental Activities	\$	<u>1,073,808</u>

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

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 1. CREATION OF DISTRICT**

Harris County Water Control and Improvement District No. 1 of Harris County, Texas (the “District”) was created, according to official state records, on May 1, 1939, by the State Board of Water Engineers, a state agency that was a predecessor of the Texas Commission on Environmental Quality pursuant to Article XVI, Section 59 of the Texas Constitution, and operates under provisions of Chapter 51 of the Texas Water Code, as amended, and other general statutes of Texas. The first board meeting of the lawfully appointed Board of Directors was on or about May 25, 1939. On July 1, 1939, a new board was duly elected in accordance with state law by the duly qualified voters of the District. The first bonds were sold July 20, 1939. The District is located in an unincorporated area north of Baytown, Texas.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The 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:

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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

Financial Statement Presentation (Continued)

- \* Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation 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.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, tax revenues and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Individual capital items, including infrastructure assets are capitalized, if they have an original cost greater than \$2,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	35-40
Furniture and Fixtures	7-10
Machinery and Equipment	5-15
Water Distribution System	30-50
Sewer Collection System	30-50

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pension and Other Postemployment Benefits

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. A plan has been established for the District’s employees other than directors. (See Note 8).

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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

Measurement Focus (Continued)

of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

*Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

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

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

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

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.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 3. LONG-TERM DEBT**

	Refunding Series 2013	Series 2015
Amount Outstanding – September 30, 2020	\$ 750,000	\$ 7,060,000
Interest Rates	3.00%	3.00% - 3.50%
Maturity Date	February 15, 2021/2023	February 15, 2021/2037
Interest Payment Dates	February 15/ August 15	February 15/ August 15
Callable Dates	February 15, 2022*	February 15, 2026*

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

The District entered into a capital lease for the acquisition and installation of advanced metering infrastructure at a cost of \$931,342 during 2014. The terms of the lease include annual payments of \$117,365 including interest at 3.5%. There is a pre-payment option that begins in June of 2021. The General Fund provides the resources to pay the lease payments.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2020:

	October 1, 2019	Additions	Retirements	September 30, 2020
Bonds Payable	\$ 8,355,000	\$	\$ 545,000	\$ 7,810,000
Capital Lease - Meters	532,168		99,537	432,631
Unamortized Discounts	(72,936)		(7,061)	(65,875)
Unamortized Premiums	111,301		16,723	94,578
Total Long-Term Liabilities	<u>\$ 8,925,533</u>	<u>\$ -0-</u>	<u>\$ 654,199</u>	<u>\$ 8,271,334</u>
		Amount Due Within One Year		\$ 662,872
		Amount Due After One Year		<u>7,608,462</u>
		Total Bonds Payable		<u>\$ 8,271,334</u>



**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of September 30, 2020, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 560,000	\$ 237,245	\$ 797,245
2022	580,000	220,145	800,145
2023	600,000	202,445	802,445
2024	350,000	188,195	538,195
2025	365,000	177,470	542,470
2026-2030	1,985,000	714,550	2,699,550
2031-2035	2,325,000	383,358	2,708,358
2036-2037	1,045,000	36,838	1,081,838
	<u>\$ 7,810,000</u>	<u>\$ 2,160,246</u>	<u>\$ 9,970,246</u>

As of September 30, 2020, the debt service requirements on the lease payments outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 102,872	\$ 14,493	\$ 117,365
2022	106,318	11,047	117,365
2023	109,880	7,485	117,365
2024	113,561	3,804	117,365
	<u>\$ 432,631</u>	<u>\$ 36,829</u>	<u>\$ 469,460</u>

As of September 30, 2020, the District had authorized but unissued bonds in the amount of \$8,150,000 for water, sanitary sewer and drainage bonds.

During the year ended September 30, 2020, the District levied ad valorem debt service tax rate of \$0.26216 per \$100 of assessed valuation, which resulted in a levy of \$849,007 on the adjusted taxable valuation of \$323,850,604 for the 2019 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the costs of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

The bond order states that the District is required by the Securities and Exchange Commission to provide annual continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.

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 each 5th year anniversary of each issue.

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$10,206,604 and the bank balance was \$10,252,690. The District was not exposed to custodial credit risk at year-end.

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

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 3,590,607	\$	\$ 3,590,607
DEBT SERVICE FUND	855,958	222,525	1,078,483
CAPITAL PROJECTS FUND	<u>5,537,514</u>	<u></u>	<u>5,537,514</u>
TOTAL DEPOSITS	<u>\$ 9,984,079</u>	<u>\$ 222,525</u>	<u>\$ 10,206,604</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth.

The 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.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District records in investments in certificates of deposit at acquisition cost

As of September 30, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	<u>\$ 222,525</u>	<u>\$ 222,525</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by investing in certificates of deposit with balances covered in accordance with Texas statutes.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposits with maturities of approximately one year or less.

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Restrictions

All cash and investments of the Debt Service Fund are restricted for payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for purchases of capital assets.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2020 is as follows:

	October 1, 2019	Increases	Decreases	September 30, 2020
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 105,132	\$	\$	\$ 105,132
Construction in Progress	1,614,765	400,631	1,381,172	634,224
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 1,719,897</u>	<u>\$ 400,631</u>	<u>\$ 1,381,172</u>	<u>\$ 739,356</u>
<b>Capital Assets Subject to Depreciation</b>				
Building	\$ 280,235	\$	\$	\$ 280,235
Water System	2,878,443	1,372,724		4,251,167
Sewer System	15,326,186	8,448		15,334,634
Leased Equipment	931,342			931,342
Machinery and Equipment	467,642			467,642
Furniture and Fixtures	5,688			5,688
Vehicles	120,344			120,344
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 20,009,880</u>	<u>\$ 1,381,172</u>	<u>\$ - 0 -</u>	<u>\$ 21,391,052</u>
<b>Accumulated Depreciation</b>				
Building	\$ 185,545	\$ 7,960	\$	\$ 193,505
Water System	1,542,949	81,465		1,624,414
Sewer System	8,081,654	420,663		8,502,317
Leased Equipment	403,581	93,475		497,056
Machinery and Equipment	249,297	33,068		282,365
Furniture and Fixtures	4,152	319		4,471
Vehicles	115,601	4,203		119,804
<b>Total Accumulated Depreciation</b>	<u>\$ 10,582,779</u>	<u>\$ 641,153</u>	<u>\$ - 0 -</u>	<u>\$ 11,223,932</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 9,427,101</u>	<u>\$ 740,019</u>	<u>\$ - 0 -</u>	<u>\$ 10,167,120</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 11,146,998</u>	<u>\$ 1,140,650</u>	<u>\$ 1,381,172</u>	<u>\$ 10,906,476</u>

**HARRIS COUNTY WATER CONTROL  
AND IMPROVEMENT DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE 7. MAINTENANCE TAX**

At an election held September 14, 2002, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the year ended September 30, 2020, the District levied a maintenance tax rate of \$0.09784 per \$100 of assessed valuation, which resulted in a tax levy of \$316,855 on the adjusted taxable valuation of \$323,850,604 for the 2019 tax year.

**NOTE 8. PENSION PLAN**

Plan Description

The District provides retirement for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 780 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available on the TCDRS website ([www.tcdrs.org](http://www.tcdrs.org)).

Benefits Provided

The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing the TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service, regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee’s deposits to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

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**NOTE 8. PENSION PLAN (Continued)**

At September 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled but not yet receiving benefits	7
Active employees	13

Contributions

The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 14.0% for the months of the 2020 accounting year and the 2019 accounting year. The deposit rate payable by the employee members for calendar years 2019 and 2020 is 7.0% as adopted by the governing body of the District. The employee deposit rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act.

For the District's accounting year ended September 30, 2020, the annual pension cost for the TCDRS plan for its employees was \$84,224 and the actual contributions were \$84,224.

Actuarial Assumptions

The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/19
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Asset Valuation Method	5-year smoothed market
Actuarial Assumptions:	
Investment return <sup>1</sup>	8.10%
Projected salary increases <sup>1</sup>	4.90%
Inflation	2.75%
Cost-of-living adjustments	0.00%

<sup>1</sup> Includes inflation at the stated rate

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**NOTE 8. PENSION PLAN (Continued)**

All actuarial assumptions that determined the total pension liability as of December 31, 2019 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

Mortality rates were based on the following:

Depositing members – 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014.

Service retirees, beneficiaries and non-depositing members – 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Disabled retirees - 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Depletion of Plan Assets/ GASB Discount Rate

The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

- 1) The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.
- 2) The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

**HARRIS COUNTY WATER CONTROL  
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SEPTEMBER 30, 2020**

**NOTE 8. PENSION PLAN (Continued)**

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

Depletion of Plan Assets/ GASB Discount Rate (Continued)

- 1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
- 2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
- 3) The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) An increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes.



**HARRIS COUNTY WATER CONTROL  
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**NOTE 8. PENSION PLAN (Continued)**

Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on April 2020 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. See Millian's TCDRS Investigation of Experience report for period January 1, 2013 – December 31, 2016 for more details.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	14.50%	5.20%
Private Equity	20.00%	8.20%
Global Equities	2.50%	5.50%
International Equities-Development	7.00%	5.20%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	-0.20%
Strategic Credit	12.00%	3.14%
Direct Lending	11.00%	7.16%
Distressed Debt	4.00%	6.90%
REIT Equities	3.00%	4.50%
Master Limited Partnerships (MLPs)	2.00%	8.40%
Private Real Estate Partnerships	6.00%	5.50%
Hedge Funds	8.00%	2.30%

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**NOTE 8. PENSION PLAN (Continued)**

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances of December 31, 2018	\$ 3,134,103	\$ 2,934,796	\$ 199,307
Changes for the year:			
Service Costs	71,067		71,067
Interest on the Total Pension Liability	253,296		253,296
Effect of Economic/Demographic Gains or Losses	(14,478)		(14,478)
Benefit Payments	(159,229)	(159,229)	
Administrative Expenses		(2,567)	2,567
Member Contributions		38,150	(38,150)
Net investment income		481,997	(481,997)
Employer Contributions		76,300	(76,300)
Other		(1,064)	1,064
Balances of December 31, 2019	<u>\$ 3,284,759</u>	<u>\$ 3,368,383</u>	<u>\$ (83,624)</u>

Sensitivity Analysis - The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 3,698,063	\$ 3,284,759	\$ 2,933,645
Fiduciary net position	<u>3,368,383</u>	<u>3,368,383</u>	<u>3,368,383</u>
Net pension liability	<u>\$ 329,680</u>	<u>\$ (86,624)</u>	<u>\$ (\$434,738)</u>

**HARRIS COUNTY WATER CONTROL  
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**NOTE 8. PENSION PLAN (Continued)**

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

	<u>Deferred Inflows of resources</u>	<u>Deferred Outflows of resources</u>
Differences between expected and actual experience	\$ 54,463	\$ 16,647
Changes in assumptions		7,332
Net difference between projected and actual earnings	86,607	
Contributions paid to TCDRS subsequent to the measurement date		64,572
Total	<u>\$ 141,070</u>	<u>\$ 88,551</u>

The District made plan contributions subsequent to the measurement date and prior to the District fiscal year-end of \$64,572, which are recorded as deferred outflows of resources. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year ended December 31:	
2020	\$ (35,530)
2021	(34,946)
2022	2,175
2023	(47,979)
2024	1,259
Thereafter	(2,070)

**NOTE 9. COMPENSATED ABSENCES**

Compensated absences payable recorded in the accompanying financial statements relates to earned vacation time. Accumulated compensated absences related to sick time amounting to approximately \$78,899 as of September 30, 2020, are not recorded in the accompanying financial statement since such compensation is not fully vested and is dependent upon the occurrence of future employee illnesses, the probability of which cannot be measured.

**NOTE 10. GRANT FUNDS**

The District has applied for a grant of almost \$3,900,000 related to certain wastewater treatment plant improvements. This grant was approved in October of 2019 and the District anticipates construction related to this grant beginning in 2020 with the project being completed in 2021 or 2022.

**HARRIS COUNTY WATER CONTROL  
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**NOTE 11. PURCHASE WATER AGREEMENT**

The District entered into an agreement with the Baytown Area Water Authority (“BWA”) in September, 1993, to purchase at least 350,000 gallons of water per day at a minimum cost of one dollar (\$1.00) per one thousand (1,000) gallons and that such purchase shall begin no later than December 31, 1994. The cost of the water has increased periodically and was \$2.86 per thousand gallons at September 30, 2020. The District’s cost for such water during the current year was \$541,230. The District currently purchases approximately 80% of its water from BWA and would likely incur an interruption in service and/or a significant increase in costs if BWA ceased to provide the water.

**NOTE 12. RISK MANAGEMENT**

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

**NOTE 13. INTERFUND RECEIVABLES AND PAYABLES**

As of September 30, 2020, the Debt Service Fund recorded a payable to the General Fund in the amount of \$51,695 for maintenance tax collections.

**NOTE 14. ECONOMIC 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.



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