

## PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 18, 2019

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the purpose of soliciting initial bids on the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

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

THE DISTRICT WILL NOT DESIGNATE THE BONDS AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—NOT QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS” HEREIN.

### **NEW ISSUE-Book-Entry Only**

Underlying Rating: S&P “A”  
See “MUNICIPAL BOND RATING AND  
MUNICIPAL BOND INSURANCE” herein.

### **NEWPORT MUNICIPAL UTILITY DISTRICT** *(A political subdivision of the State of Texas located within Harris County)*

**\$7,500,000**  
**UNLIMITED TAX BONDS**  
**SERIES 2020A**

**\$1,410,000**  
**UNLIMITED TAX PARK BONDS**  
**SERIES 2020B**

**Dated Date: January 1, 2020**

**Due: April 1, as shown below**

The \$7,500,000 Unlimited Tax Bonds, Series 2020A (the “Series 2020A Bonds”) and the \$1,410,000 Unlimited Tax Park Bonds, Series 2020B (the “Series 2020B Park Bonds”) (collectively referred herein as the “Bonds”) are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest accrues from January 1, 2020, and is payable April 1, 2020 (three months of interest), and each October 1 and April 1 thereafter until the earlier of maturity or redemption on the basis of a 360 day year of twelve 30 day months. The Bonds are subject to redemption prior to maturity as described below.

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

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**See “MATURITY SCHEDULES” on the inside cover**

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The Bonds, when issued, will constitute valid and legally binding obligations of Newport Municipal Utility District (the “District”) and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are subject to special investment risks described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered by the Initial Purchasers (as herein defined) subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchasers, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds through DTC is expected on or about January 9, 2020.

**Bids Due: Wednesday, December 4, 2019 at 1:00 P.M., Houston Time in Houston, Texas**  
**Bid Award: Wednesday, December 4, 2019 at 4:00 P.M., Houston Time in Crosby, Texas**

## MATURITY SCHEDULES

### \$7,500,000 The Series 2020A Bonds

<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (d)</u>	<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (d)</u>
2030	\$ 395,000 (c)				2037	\$ 540,000 (c)			
2031	415,000 (c)				2038	565,000 (c)			
2032	435,000 (c)				2039	590,000 (c)			
2033	450,000 (c)				2040	615,000 (c)			
2034	470,000 (c)				2041	645,000 (c)			
2035	495,000 (c)				2042	670,000 (c)			
2036	515,000 (c)				2043	700,000 (c)			

### \$1,410,000 The Series 2020B Park Bonds

<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (d)</u>	<u>Due</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount (a)</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (b)</u>	<u>CUSIP</u> <u>Number (d)</u>
2030	\$ 80,000 (c)				2037	\$ 110,000 (c)			
2031	85,000 (c)				2038	115,000 (c)			
2032	90,000 (c)				2039	120,000 (c)			
2033	95,000 (c)				2040	130,000 (c)			
2034	100,000 (c)				2041	135,000 (c)			
2035	105,000 (c)				2042	140,000 (c)			
2036	105,000 (c)								

- (a) The Initial Purchasers (as herein defined) may designate one or more maturities as term bonds. See accompanying “OFFICIAL NOTICE OF SALE” and “OFFICIAL BID FORM.”
- (b) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from January 1, 2020 is to be added to the price.
- (c) The Bonds are subject to redemption prior to maturity at the option of the District, in whole or, from time to time in part, on April 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (d) CUSIP Numbers will be assigned to the Bonds by CUSIP Service Bureau and will be included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement 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 Rule 15c2-12.

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019, upon payment of duplication costs.

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

## OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

### THE FINANCING

<i>The Issuer...</i>	Newport Municipal Utility District (the “District”), a political subdivision of the State of Texas, located in Harris County, Texas. See “THE DISTRICT.”
<i>The Issue...</i>	\$7,500,000 Unlimited Tax Bonds, Series 2020A (the “Series 2020A Bonds”) and the \$1,410,000 Unlimited Tax Park Bonds, Series 2020B (the “Series 2020B Park Bonds”) (collectively referred herein as the “Bonds”) are issued pursuant to separate orders (the “Bond Orders”) of the District’s Board of Directors. The 2020A Bonds mature serially on April 1 in each year 2030 through 2043, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. The 2020B Park Bonds mature serially on April 1 in each year 2030 through 2042, both inclusive, in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from January 1, 2020, with interest payable April 1, 2020 (three months of interest) and each October 1 and April 1 thereafter until maturity. The Bonds are subject to optional redemption, in whole or, from time to time in part, on April 1, 2025, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. See “THE BONDS.”
<i>Book-Entry-Only System ...</i>	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry-Only System.”
<i>Authority for Issuance ...</i>	The Series 2020A Bonds are the fourth series of bonds issued out of an aggregate of \$30,000,000 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities authorized by the District’s voters at an election held in the District on May 7, 2005. The Series 2020B Park Bonds are the second series of bonds issued out of an aggregate of \$5,000,000 principal amount of unlimited tax bonds for purposes of financing and constructing recreational facilities authorized by the District’s voters at an election held in the District on May 7, 2005. After issuance of the Bonds, the District will have \$8,090,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and no principal amount of unlimited tax bonds authorized but unissued for purposes of financing and constructing recreational facilities. The Bonds are being issued pursuant to Article XVI, Section 59 of the Constitution of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, and the orders (the “Bond Orders”) of the Board of Directors (the “Board”) of the District. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment ...</i>	The Bonds are payable from a continuing direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Use of Proceeds Series 2020A Bonds...</i>	Proceeds from sale of the Series 2020A Bonds will be used to finance (1) water, sewer and drainage facilities to serve Newport Section 4 Partial Replat No. 1; (2) water, sewer and drainage facilities to serve Newport Court; (3) clearing and grubbing to serve Newport Section 8 Partial Replat No. 2, 3 & 4; (4) water, sewer and drainage facilities to serve Newport Section 8 Partial Replat No. 3; (5) water, sewer and drainage facilities to serve Newport Section 8 Partial Replat No. 4; (6) water, sewer and drainage facilities to serve Newport Section 9; (7) Sanitary Sewer System Improvement Projects; (8) Wastewater Treatment Plant Improvement Projects; (9) Water System Improvement Projects; (10) clearing and grubbing to serve Newport Section 9; (11) engineering fees and (12) land costs. Bond proceeds will also be used to pay developer interest and to pay certain costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”



<i>Use of Proceeds Series 2020B Bonds...</i>	Proceeds from sale of the Series 2020B Park Bonds will be used to finance (1) park improvements and (2) engineering fees. Bond proceeds will also be used to pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
<i>Payment Record ...</i>	The District has previously issued one series of waterworks and sewer system combination unlimited tax and revenue bonds, four series of unlimited tax bonds, one series of unlimited tax refunding bonds and five series of unlimited tax and revenue refunding bonds, \$19,095,000 of which remained outstanding as of October 1, 2019 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of and interest on the Outstanding Bonds.
<i>Not Qualified Tax-Exempt Obligations ...</i>	The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See "TAX MATTERS—Not Qualified Tax-Exempt Obligations for Financial Institutions."
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	<p>S&amp;P Global Ratings, a business unit of Standard &amp; Poor's Financial Services LLC ("S&amp;P") has assigned an underlying rating of "A" to the Bonds. An explanation of the rating may be obtained from S&amp;P, 55 Water Street, New York, New York 10041. The fee associated with the rating assigned to the District by S&amp;P will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Initial Purchasers. See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."</p> <p>Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Initial Purchasers. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."</p>
<i>Bond Counsel ...</i>	Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, Houston, Texas.
<i>Financial Advisor ...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel ...</i>	McCall Parkhurst & Horton, L.L.P., Disclosure Counsel, Houston, Texas.
<i>Investment Considerations ...</i>	The purchase and ownership of the Bonds are subject to special investment considerations, and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

## THE DISTRICT

<i>Description...</i>	The District, located in Harris County, Texas, is a political subdivision of the State of Texas. The area comprising the District was originally two municipal utility districts, which were consolidated on August 1, 1998 into one district. The original districts were Harris County Municipal Utility District No. 20 ("MUD 20"), which was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), by an order dated December 13, 1972 and Harris County Municipal Utility District No. 73 ("MUD 73"), which was created by order effective September 23, 1977 of the Texas Water Rights Commission. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 2,350 acres. See "THE DISTRICT" and "AERIAL PHOTOGRAPH."
<i>Location...</i>	The District is located in northeast Harris County, approximately 23 miles northeast of downtown Houston and two miles northwest of Crosby, Texas, near the southeastern shore of Lake Houston. Access to the District is provided by South Diamondhead Drive, North Diamondhead Drive and Newport Boulevard from FM 2100. The District is located entirely within the extraterritorial jurisdiction of the City of Houston.

*Recent Extreme Weather  
Events; Hurricane Harvey;  
Tropical Storm Imelda*

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days and Tropical Storm Imelda, which occurred on November 21, 2019.

According to Professional Utility Services, Inc. (the “Operator”), there was no interruption of water and sewer service as a result of Tropical Storm Imelda, but the District did sustain damage to a stormwater pump station and lift station and force main which required emergency repairs. To the knowledge of the District, approximately 75 homes within the District experienced structural flooding or other damage as a result of Tropical Storm Imelda.

According to the Operator, there was no interruption of water and sewer service as a result of Hurricane Harvey, but the District did sustain damage to its wastewater treatment plant and control building, the wastewater treatment plant emergency generator, Water Plant No. 1 booster pump and other facilities. The District Operator, on behalf of the District, submitted claims to the District insurance carrier and the District has received \$585,443. Any and all damage claims not covered by the District insurance carrier were filed with the Federal Emergency Management Agency (FEMA). As of October 2019, the District has received from FEMA funds in the amount of \$385,856. Additional damage claims are pending and being processed through FEMA. The total District expense for damages claimed due to Hurricane Harvey was over \$1,300,000. The District is currently enrolled in a Federal Mitigation program and is pursuing funds for mitigation planning and projects through FEMA. The District cannot guarantee or represent that it will receive any funds from FEMA, other than funds already received. To the knowledge of the District, approximately 25 homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

*Status of Development ...*

The District began as part of the approximately 5,914 acre Newport Project, development of which began during the 1970s. Approximately 1,745 acres of land within the District have been developed, have been partially developed or are being developed into 4,822 lots in the single family residential subdivisions of Newport Sections 1 through 7, Newport Section 4 partial replats 1,3 and 4, Newport Section 6 partial replat 1, Newport Section 7 partial replat nos. 1,3,4 and 5, Newport Section 8 (Phase 1), Newport Section 8 partial replat nos. 1, 3 and 4, Newport Section 9, Newport Section 10, Newport Section 10 partial replat no. 1, Deerpointe Section 1, Oaks of Newport, Section 1, Patio Woods, Seven Oaks North, Seven Oaks South, Villas at Newport, Newport Villages (Newport Section 12), Country Club Estates Sections 1 and 1 Reserve A and Newport Court. Water, sewer and drainage facilities to serve Newport Section 6 Partial Replat No. 1, and Newport Section 7 partial replat nos. 3, 4 and 5 are currently under construction. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

As of November 1, 2019, there were 3,773 completed and occupied homes, 57 vacant homes, 41 homes listed in a builder’s name, 25 commercial connections, 234 multi-family connections (3 complexes) and 558 vacant lots. Of such 558 vacant lots, some vacant lots are owned by individuals. In some cases, those lots may have homes built on two lots or may be owned by the adjacent homeowner with no intention of building on the lot.

Approximately 21 acres of land have been developed into the Fairway Port Condominiums, consisting of 76 condominium units, the Newport Village Apartments, consisting of 80 units and the Spring Hill Village Apartments, consisting of 78 apartment units.

International Union of Operating Engineers (“IUOE”) owns approximately 228 acres within the District. A dormitory and conference center have been constructed on such site. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a “temporary” property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2020.

In addition to residential development, two convenience stores (one of which is currently vacant), a car wash, a kidney dialysis center, a daycare center, a retail strip center and a bank are located in the District on approximately 22 acres of land in the District. A Crosby Volunteer Fire Department fire station and the Harvest Time Church of God, which are tax exempt properties, are also located on such 22 acres. A dental office, a gun range and an Emergency Medical Service facility are located in the District, but are not provided service by the District. The District provides water and sewer service to the Newport Elementary School, which is not located in the District. Approximately 76 acres have been developed into the Newport Golf and Conference Center (now known as Stonebridge at Newport), which includes an 18-hole golf course. There are approximately 251 acres in the District remaining to be developed. There are approximately 6 acres which are used for plant sites. See “THE DISTRICT” and “STATUS OF DEVELOPMENT IN THE DISTRICT.”

#### *The Developers...*

Rampart Holding LLC (“Rampart Holding LLC”), a Texas limited liability company, owns approximately 65 acres of undeveloped land, 62 platted but undeveloped lots and 19 developed single family lots. See “STATUS OF DEVELOPMENT IN THE DISTRICT” and “THE DEVELOPERS.”

Newport Seven Land Company L.L.C. (“Newport Seven”) has developed Seven Oaks North and Seven Oaks South, consisting of a total of 188 lots on approximately 60 acres of land. See “STATUS OF DEVELOPMENT” and “THE DEVELOPERS–Newport Seven Land Company L.L.C.”.

Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company (“FDC”) has developed Villas at Newport, Newport Section 12, Newport Section 7 partial replat no. 1, Newport Section 8 partial replat no. 1, Newport Section 8 partial replat no. 3, and Newport Section 8 partial replat no. 4. FDC is in the process of developing Newport Section 7 partial replat no. 3 and nos. 4 and 5.

Newport Pointe, Ltd. (“NP Ltd.”) owns 188 acres of land which was annexed into the District in 2008. NP Ltd. has indicated that design has begun on the initial phase of lots on the 188 acres. See “DEFINED AREA.”

Newport Court, Ltd. (“NC Ltd.”) has developed approximately 26 acres into 68 lots and a 6-acre retail site.

Dunhill Builders, LLC d/b/a DH Homes (“DH Homes”) has developed Newport Section 4 partial replat no. 1 consisting of 15 lots on approximately 10 acres of land.

3PM Development Crosby, LLC d/b/a DH Homes has developed Newport Section 4 partial replat no. 4 into 11 lots on 6.44 acres.

Rochester Enterprises, LLC (“Rochester”) has developed Newport Section 9 consisting of approximately 18 acres into 84 lots. Rochester has developed Newport Section 10 replat no. 1 into 46 single family lots. Currently, Rochester is developing Newport Section 6 partial replat no. 1 into 27 single-family residential lots on approximately 6.7 acres of land in the District.

Collectively Rampart Holding LLC, Newport Seven, FDC, NP Ltd., NC Ltd., DH Homes and Rochester are defined as the “Developers.”

#### *Defined Area...*

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On May 11, 2017, the District approved the creation of a defined area encompassing approximately 188 acres within the District (the “Defined Area”).

At an election within the Defined Area, held on May 6, 2017, the voters within the Defined Area authorized \$50,000,000 principal amount of unlimited tax bonds to finance water, wastewater and drainage improvements solely within the Defined Area, and for the further purpose of refunding those bonds, the levy of an unlimited tax in payment of such bonds within the Defined Area and the levy of an unlimited operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Newport Pointe Ltd., and is expected to be developed as a primarily residential development in the Defined Area. To date, no development has occurred. The District has levied a tax rate of \$0.664 per \$100 of assessed valuation in the Defined Area for 2019. See “THE DEFINED AREA.”

## SELECTED FINANCIAL INFORMATION

2019 Taxable Assessed Valuation .....	\$683,822,474 (a)
Gross Debt Outstanding (after the issuance of the Bonds) .....	\$28,005,000 (b)
Estimated Overlapping Debt.....	<u>53,735,055 (c)</u>
Gross Debt and Estimated Overlapping Debt .....	\$81,740,055
Ratios of Gross Debt to:	
2019 Taxable Assessed Valuation .....	4.10%
Ratios of Gross Debt and Estimated Overlapping Debt to:	
2019 Taxable Assessed Valuation .....	11.95%
Debt Service Fund Balance as of November 21, 2019 .....	\$1,256,815 (d)
Operating Fund Balance as of November 21, 2019 .....	\$4,552,162
Construction Fund Balance as of November 21, 2019 .....	\$2,706,315
<u>2019 District Tax Rate</u>	
2019 Debt Service Tax Rate .....	\$0.280
2019 Maintenance Tax Rate .....	<u>0.306</u>
2019 Total Tax Rate .....	\$0.586/\$100 A.V.
<u>2019 Defined Area Tax Rate</u>	
2019 Maintenance Tax Rate .....	\$0.664/\$100 A.V.(e)
Projected Average Annual Debt Service Requirements (2020-2043) of the Bonds at an assumed interest rate of 4.50% ("Average Requirement") .....	\$1,702,416 (f)
Projected Maximum Annual Debt Service Requirement (2025) of the Bonds at an assumed interest rate of 4.50% ("Maximum Requirement") .....	\$2,049,713 (f)
Tax Rates Required to Pay Average Requirement (2020-2043) at a 95% Collection Rate Based upon 2019 Taxable Assessed Valuation .....	\$0.27/\$100 A.V.
Tax Rates Required to Pay Maximum Requirement (2025) at a 95% Collection Rate Based upon 2019 Taxable Assessed Valuation .....	\$0.32/\$100 A.V.
Water and Sewer Connections as of November 1, 2019 (g):	
Completed Homes – Occupied .....	3,773
Completed Homes – Vacant .....	57
Homes under construction or in a builder's name .....	41
Vacant lots .....	558
Commercial Connections .....	25
Apartment Connections ( 234 apartment units) .....	3

Estimated 2019 Population – 12,949 (h)

- (a) Value includes \$680,739,467 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$3,083,007 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2019, which totals \$683,822,474. See "TAX PROCEDURES."
- (b) After the issuance of the Bonds.
- (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (d) Unaudited. The District is not required to maintain a particular fund balance.
- (e) Only areas with the Defined Area are assessed the Defined Area tax rate.
- (f) See "DEBT SERVICE REQUIREMENTS."
- (g) See "STATUS OF DEVELOPMENT IN THE DISTRICT."
- (h) Based upon 3.5 persons per occupied home and 2 persons per condominium and apartment unit.

## **PRELIMINARY OFFICIAL STATEMENT**

### **NEWPORT MUNICIPAL UTILITY DISTRICT**

*(A political subdivision of the State of Texas located within Harris County)*

**\$7,500,000**  
**UNLIMITED TAX BONDS**  
**SERIES 2020A**

**\$1,410,000**  
**UNLIMITED TAX PARK BONDS**  
**SERIES 2020B**

This Official Statement provides certain information in connection with the issuance by Newport Municipal Utility District (the “District”) of its \$7,500,000 Unlimited Tax Bonds, Series 2020A (the “Series 2020A Bonds”) and the \$1,410,000 Unlimited Tax Park Bonds, Series 2020B (the “Series 2020B Park Bonds”) (collectively referred to herein as the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, orders authorizing the issuance of the Bonds (the “Bond Orders”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “Commission”) and elections held within the District.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Orders, and certain other information about the District, the Developers (as defined herein) and development activity within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of such documents may be obtained from the District upon payment of the costs of duplication therefor from Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

## **THE BONDS**

### **Description**

The Bonds are dated January 1, 2020, with interest payable each October 1 and April 1 (each an “Interest Payment Date”), beginning April 1, 2020 (three months of interest), and mature on the dates and in the amounts and pay interest at the rates shown on the cover page hereof. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” herein.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners (“Registered Owners”) as shown on the bond register (the “Register”) kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

### **Book-Entry-Only System**

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedure” of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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).

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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

### **Registration, Transfer and Exchange**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the Bond Orders. While the Bonds are in the Book-Entry-Only system, Bonds will be registered only in the name of Cede & Co and held by DTC. See “Book-Entry-Only System.”

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas. In the Bond Orders the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **Source of Payment**

The Bonds, when issued, will constitute valid and binding obligations of the District and are payable as to principal and interest from and are secured by the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund (as defined in the Bond Orders) and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and on any additional bonds issued by the District payable from taxes which may be levied. See “TAX DATA.”

The Bonds are obligations solely of the District and are not obligations of Harris County, Texas, the City of Houston, the State of Texas or any political subdivision or entity other than the District.

### **Funds**

In the Bond Orders, the Debt Service Fund is confirmed. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District’s duly authorized additional bonds, together with interest thereon, as such becomes due. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, and to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds including interest earnings thereon, will be deposited into the Capital Projects Fund to be used for the purpose of acquiring and constructing District facilities and for paying the costs of issuing the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

The Bond Orders also confirm the previous establishment of the District’s General Fund. The District deposits, as collected, all revenues derived from operation of the District’s water and wastewater system and from maintenance taxes into the General Fund. From the General Fund, the District pays all administration, operation, and maintenance expenses of the water and wastewater system and the District’s storm drainage system, recreational facilities and street lights in the District. Any funds remaining in the General Fund after payment of maintenance and operating expenses may be used by the District for any lawful purposes.



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

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a replacement Bond of like series, maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like series, maturity, interest rate and principal amount bearing a number not contemporaneously outstanding. Registered Owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the District and Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Paying Agent/Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become payable, the District in its discretion may, instead of issuing a replacement Bond, authorize the Paying Agent/Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section shall be entitled to the benefits and security of the Bond Orders to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

### **Record Date**

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

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds prior to their scheduled maturities, in whole or, from time to time in part, in integral multiples of \$5,000 on April 1, 2025, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds of a given maturity are to be redeemed, the particular Bonds to be redeemed shall be selected on behalf of the District by the Paying Agent/Registrar by random method selection (or by DTC in accordance with its procedures while the Bonds are in Book-Entry-Only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like series, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be made as provided in the Bond Orders and shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice so given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Authority for Issuance**

The Bonds are issued pursuant to the Bond Orders, Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; the general laws of the State of Texas and an Order of the Commission.

## **Issuance of Additional Debt**

After issuance of the Bonds, the District will have \$8,090,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and no principal amount of unlimited tax bonds authorized but unissued for purposes of construction of recreational facilities. The District may issue its authorized but unissued bonds and any additional tax bonds or combination tax and revenue bonds voted in the future with the approval of the Commission, where applicable.

In November 2019, the District conducted a bond election seeking the authorization of \$70,000,000 in additional unlimited tax bonds to finance water, sewer and drainage projects to serve the District for the next ten years. The election failed to pass. The board of directors of the District is currently considering whether to call another election which, if called, would be held in May 2020. If the District is not able to secure voter approval for unlimited tax bonds, it will be required to obtain funds for the necessary plant expansions and infrastructure improvements by raising water and sewer rates, raising its maintenance taxes, issuing revenue bonds, or some combination of these methods.

The District may also issue additional bonds in the Defined Area, subject to the authorization of the Defined Area voters and the approval of the Commission. Defined Area voters have authorized \$50,000,000 in principal amount of unlimited tax bonds for Defined Area projects. See "DEFINED AREA."

The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes. The outstanding principal amount of all recreational facility bonds may not exceed an amount equal to one percent of the assessed value of the taxable property in the District.

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

The Bond Orders impose no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the Commission). Any additional bonds issued by the District may be on a parity with the Bonds.

Issuance of additional bonds or other subsequently authorized bonds could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

## **Defeasance**

The Bond Orders provide 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 as follows: (i) by paying or causing to pay principal and interest due on the Bonds (whether at maturity, redemption or otherwise) in accordance with the terms of the Bonds; (ii) 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 (iii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing the discharge amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

Upon such deposit or payment 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.

### **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the “City”), the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District’s consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation.

If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and dissolve the District. 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 is made concerning the ability of the City to make debt service payments should annexation occur.

### **Consolidation**

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

### **Strategic Partnership Agreement**

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

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

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

“(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.”

“(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.”

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

### **Amendments**

The District has reserved the right to amend the Bond Orders without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Orders, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Orders, or (c) in connection with any other change not to the prejudice of the Registered Owners, but the District may not otherwise amend the terms of the Bonds or of the Bond Orders without the consent of the Registered Owners.

## **Registered Owners' Remedies**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Orders, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Orders, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Orders. Except for mandamus, the Bond Orders does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Orders may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

## **THE DISTRICT**

### **General**

The District, located in Harris County, Texas, is a political subdivision of the State of Texas. The area comprising the District was originally two municipal utility districts, which were consolidated on August 1, 1998 into one district. The original districts were Harris County Municipal Utility District No. 20 ("MUD 20"), which was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "Commission"), by an order dated December 13, 1972 and Harris County Municipal Utility District No. 73 ("MUD 73"), which was created by order effective September 23, 1977 of the Texas Water Rights Commission. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 2,350 acres.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the collection of solid waste. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District also is empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Houston, the Commission and the voters of the District. The District has the power to contract for peace officers to prevent or abate the commission of certain offenses against the rules of the District and the laws of the State of Texas. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities.

The Commission exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's water, sewer and storm drainage system is subject to the regulatory jurisdiction of the City of Houston and of additional State of Texas agencies. See "THE SYSTEM--Regulation."

### **Description and Location**

The District is located in northeast Harris County, approximately 23 miles northeast of downtown Houston and two miles northwest of Crosby, Texas, near the southeastern shore of Lake Houston. Access to the District is provided by South Diamondhead Drive, North Diamondhead Drive and Newport Boulevard from FM 2100. The District contains approximately 2,350 acres and is located entirely within the extraterritorial jurisdiction of the City of Houston.

## **STATUS OF DEVELOPMENT IN THE DISTRICT**

### **Residential Development**

The District began as part of the approximately 5,914 acre Newport Project, development of which began during the 1970's. Approximately 1,745 acres of land within the District have been developed, have been partially developed or are being developed into 4,822 lots in the single family residential subdivisions of Newport Sections 1 through 7, Newport Section 4 partial replats 1,3 and 4, Newport Section 6 partial replat 1, Newport Section 7 partial replat nos. 1,3,4 and 5, Newport Section 8 (Phase 1), Newport Section 8 partial replat nos. 1, 3 and 4, Newport Section 9, Newport Section 10, Newport Section 1 partial replat no. 10, Deerpointe Section 1, Oaks of Newport, Section 1, Patio Woods, Seven Oaks North, Seven Oaks South, Villas at Newport, Newport Villages (Newport Section 12), Country Club Estates Sections 1 and 1 Reserve A and Newport Court. Water, sewer and drainage facilities to serve Newport Section 6 partial replat no. 1, and Newport Section 7 partial replat nos. 3, 4 and 5 are currently under construction.

As of November 1, 2019, there were 3,773 completed and occupied homes, 57 vacant homes, 41 homes listed in a builder's name, 25 commercial connections, 234 multi-family connections (3 complexes) and 558 vacant lots. Of such 558 vacant lots, some vacant lots are owned by individuals. In some cases, those lots may have homes built on two lots or may be owned by the adjacent homeowner with no intention of building on the lot.

### **Homebuilding Program**

Lennar Homes, Castlerock Homes, Century Homes and Devon Street Homes, L.P. are building homes in Newport Section 7, Replat no. 1, Newport Section 8 Replat no. 3 which average approximately \$246,000 in sales price. LGI Homes is building homes in Newport, Section 9 which average approximately \$215,000 in sales price. DH Homes is building homes in Newport Section 4, partial replats 1 and 4 with sales prices starting at approximately \$300,000. David Weekley is building homes in Newport Court, which average approximately \$252,000 in sales price. There are also custom homebuilders building on individually owned lots.

### **Other Development**

Approximately 21 acres of land have been developed into the Fairway Port Condominiums, consisting of 76 condominium units, the Newport Village Apartments, consisting of 80 units and the Spring Hill Village Apartments, consisting of 78 apartment units.

International Union of Operating Engineers owns approximately 228 acres within the District. A dormitory and conference center have been completed. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a "temporary" property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2020.

Two convenience stores (one of which is currently vacant), a car wash, a kidney dialysis center, a daycare center, a retail strip center and a bank are located in the District on approximately 25 acres of land in the District. Also, a dental office, a gun range and a Emergency Medical Service facility are located in the District, but are not provided service by the District. A Crosby Volunteer Fire Department fire station and the Harvest Time Church of God, which are tax exempt properties, are located in the District. The District also provides water and sewer service to the Newport Elementary School, which is not located in the District. Approximately 83 acres have been developed into the Newport Golf and Conference Center (now known as Stonebridge at Newport), which includes an 18-hole golf course.

### **Undeveloped Acreage**

There are approximately 251 acres in the District remaining to be developed. There are approximately 6 acres which are used for plant sites and detention areas.

## **DEFINED AREA**

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On May 11, 2017, the District approved the creation of a defined area encompassing approximately 188 acres within the District (the "Defined Area").

At an election within the Defined Area, held on May 6, 2017, the voters within the Defined Area authorized \$50,000,000 principal amount of unlimited tax bonds to finance water, wastewater and drainage improvements solely within the Defined Area and for the further purpose of refunding those bonds, the levy of an unlimited tax in payment of such bonds within the Defined Area and the levy of an unlimited operation and maintenance tax for facilities authorized by Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution within the Defined Area.

All land in the Defined Area is owned by Newport Pointe Ltd., and is expected to be developed as a primarily residential development in the Defined Area. Design work has begun on the initial phase of lots. The District set a 2019 tax rate for properties in the Defined Area of \$0.664 per \$100 assessed valuation. Properties in the Defined Area will pay taxes to the District based on the District's tax rate plus the Defined Area tax rate. For 2019, the total tax rate in the Defined Area is \$1.25 per \$100 assessed valuation.

## **MANAGEMENT**

### **Board of Directors**

The District is governed by the Board of Directors, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms, and elections are held in May in even numbered years only. All of the Directors own property in the District subject to taxation. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Margarette Chasteen	President	May 2020
DeLonne L. Johnson	Vice President	May 2022
Deborah Florus	Secretary	May 2022
Earl B. Boykin	Assistant Secretary	May 2022
R. Gary Hasse	Director	May 2020

While the District does not have any employees, it has contracted for certain services as follows:

### **Tax Appraisal**

Land and improvements within the District are appraised for ad valorem taxation purposes by the Harris County Appraisal District.

### **Tax Assessor/Collector**

The District's tax assessor/collector is Assessments of the Southwest, Inc. (the "Tax Assessor/Collector").

### **Bookkeeper**

The District contracts with McLennan & Associates, L.P. for bookkeeping services.

### **Operator**

The District contracts with Professional Utility Services, Inc. for operations and maintenance services.

### **Engineer**

The District's consulting engineer is Lockwood, Andrews & Newnam, Inc. (the "Engineer").

### **Attorney**

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and, therefore, such fees are contingent on the sale and delivery of the Bonds.

### **Financial Advisor**

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon sale and delivery of the Bonds.

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audit is filed with the Commission. The District's audited financial statements for the fiscal year ending December 31, 2018 have been prepared by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's December 31, 2018 audited financial statements.

## **THE DEVELOPERS**

### **Role of a Developer**

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

Prospective Bond purchasers should note that the prior real estate experience of the developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful.

None of the developers is responsible for, liable for, or has made any commitments for payment of the Bonds or other obligations of the District. None of the developers has a legal commitment to the District or owners of the Bonds to continue development of land within the District and each developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of each of the developers is subject to change at any time.

Collectively Rampart Holding LLC, Newport Seven, FDC, NP Ltd., NC Ltd., DH Homes and Rochester are defined as the "Developers."

### **Rampart Holding LLC**

Rampart Holding LLC ("Rampart"), a Texas limited liability company, owns approximately 65 acres of undeveloped land in the District, 62 platted but undeveloped lots and 19 developed lots. Rampart is developing 3 single family residential lots in Section 4, Partial Replats 2 and 2 single family lots in Country Club Estates, Section 1.

### **Newport Seven Land Company LLC**

Newport Seven Land Company L.L.C. ("Newport Seven") has developed Seven Oaks North and Seven Oaks South which are collectively comprised of 165 lots and 10 reserves on approximately 60 acres. Newport Seven Land Company L.L.C. owns no additional land in the District.

### **Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company ("FDC")**

Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership d/b/a Friendswood Development Company ("FDC") has developed The Villas at Newport consisting of 44 townhomes on approximately 7 acres of land, Newport Section 12, consisting of 48 lots on approximately 11 acres of land, Newport Section 7 partial replat no. 1 consisting of 58 lots, Newport Section 8 partial replat 1 consisting of 69 lots on approximately 18 acres of land, Newport Section 8 partial replat 4 consisting of 43 lots on approximately 20 acres of land and Newport Section 8 partial replat 3 consisting of 39 lots on approximately 12 acres. Currently FDC is developing Newport Section 7 partial replat no. 3 consisting of 39 lots and Newport Section 7 partial replat nos. 4 and 5 consisting of 126 lots.

### **Dunhill Builders, LLC d/b/a DH Homes**

Dunhill Builders, LLC d/b/a DH Homes has developed Newport Section 4 partial replat 1 consisting of 15 lots on approximately 10 acres of land. Dunhill Builders, LLC owns no additional land in the District, but is a related entity to 3PM Development Crosby, LLC.

### **3PM Development Crosby, LLC d/b/a DH Homes**

3PM Development Crosby, LLC d/b/a DH Homes has developed Newport Section 4 Partial Replat 4 with 11 single family residential lots on 6.44 acres.

### **Newport Pointe, Ltd.**

Newport Pointe, Ltd. ("NP Ltd.") owns 188 acres of land, which was annexed into the District in 2008. The general partner of Newport Pointe, Ltd. is Compass Land Holdings, Ltd. NP Ltd. has indicated that design has begun on the initial phase of lots on the 188 acres. All of the 188 acres is contained in the Defined Area. See "DEFINED AREA".

### **Newport Court, Ltd.**

Newport Court, Ltd. ("NC Ltd.") has developed approximately 24 acres of land in the District into 68 lots and an 8-acre retail tract. Newport Court, Ltd. owns no additional land in the District. NC Ltd. is a related entity to NP, Ltd.

### **Rochester Enterprises, LLC**

Rochester Enterprises, LLC ("Rochester") has developed Newport Section 9 consisting of approximately 18 acres into 84 lots. Rochester has developed Newport Section 10 replat no. 1 into 46 single family lots. Currently, Rochester is developing Newport Section 6, partial replat no. 1 into 27 single-family residential lots on approximately 6.7 acres of land in the District.

### **International Union of Operating Engineers (the "IUOE")**

IUOE owns approximately 228 acres within the District. A dormitory and conference center has been constructed on such site. The development has applied for an exemption from property taxes and received approval from the Appraisal District of a "temporary" property tax exemption for an incomplete improvement under active construction. The Appraisal District will review the exemption application again in 2020.

## **THE SYSTEM**

### **Regulation**

According to Lockwood, Andrews & Newnam, Inc., the District's water distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, Harris County and, in some instances, the Commission. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant which provides service to the District beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by Lockwood, Andrews & Newnam, Inc..

### **Water Supply**

The water supply system that currently serves the District includes two water plants and a surface water treatment plant. Water Plant No. 1 has a 1,800 gallon-per-minute ("gpm") well. Water Plant No. 2 has a 1,000 gpm well, which is not currently in service.

The District has booster pump capacity of 7,000 gpm, 1,500,000 gallons of ground storage tank capacity, a 600,000 gallon elevated storage tank and 70,000 gallons of hydropneumatic tank capacity. The design capacity of the surface water treatment plant is 1,700 gpm. The District has entered into a Water Supply Contract with the San Jacinto River Authority, effective as of April 17, 2008 for the purchase of 1,850,000 gallons of untreated surface water per day with the ability to take up to 130% of that amount, if supplies are available.

The District's existing water supply facilities are sufficient to serve the existing and proposed development within the District; however, as described below, because of requirements of the Harris-Galveston Coastal Subsidence District to reduce groundwater usage, the District will be required to expand its surface water treatment plant in the future to maintain the required ground water to surface water production ratios. The outstanding bond capacity available to the District at the time of the bond sale will be insufficient for the expansion of the surface water treatment plant. The District has entered into a Water Supply Agreement with Harris County Municipal Utility District No. 525 ("No. 525") to provide water to No. 525. No. 525 is required to construct a water supply line and related facilities from the District to No. 525. The District is never obligated to provide more than 1,450 ESFCs to No. 525. The District could need to expand the surface water treatment plant earlier than would otherwise be necessary as a result of the Agreement with No. 525. Pursuant to such Water Supply Agreement with No. 525, No. 525 is obligated to pay



the District \$1,000,000 in four equal installments and to make monthly payments for water. No. 525 paid the first \$250,000 installment but has not paid the second installment, which was due in 2019, and have not paid their monthly water payments.

### **Subsidence District Requirements**

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The District’s authority to pump groundwater 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 (the “1999 Plan”) to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District’s jurisdiction, which was amended in 2013 (the “2013 Plan”). The District is located partly in Area 2 and partly in Area 3 of regulatory areas as defined by the Subsidence District. Under the 1999 Plan, well owners in Area 2 were required with a certified Ground Water Reduction plan to convert to 80% surface water by 2003. The District submitted the required Ground Water Reduction Plan, which was approved and certified by the Subsidence District Board of Directors. Pursuant to the 2013 Plan, well owners in Area 3 are required to convert to a minimum of 30% surface water by 2010, 60% surface water by 2025 and to 80% surface water by 2035. With existing facilities, the District is capable of producing quantities of surface water necessary to comply with the Plan through the year 2024.

### **Wastewater Treatment System**

The District's wastewater treatment is provided by a wastewater treatment plant with 1,300,000 gallons per day (gpd) capacity, which is sufficient to serve 4,222 equivalent single family connections (“esfc”) based on 315 gpd. The District’s wastewater treatment plant was damaged significantly during Hurricane Harvey, but has since been repaired. See “INVESTMENT CONSIDERATIONS – Recent Extreme Weather Events: Hurricane Harvey.”

### **Water Distribution and Sanitary Sewer Collection and Drainage System**

The District’s System includes water, sanitary sewer and drainage facilities to serve the subdivisions and other development described under the section “STATUS OF DEVELOPMENT IN THE DISTRICT.”

### **Recreational Facilities**

The District has constructed 2.9 miles of pedestrian trails along Gum Gully with associated amenities, including neighborhood access points, trailheads, parking areas, trail signage, limited security lighting, benches, trash receptacles, and low water crossings. The District has also constructed amenities at three park sites: Park Site 1 on Port O’Call, Park Site 2 on South Diamondhead, and Park Site 3 on Flying Bridge. Each of these park sites includes play courts, playgrounds, swing sets, pedestrian paths, benches, parking areas, pavilions and restrooms. Park Site 1 includes a splash pad. The District voters have not authorized the levy of a maintenance tax to fund on-going maintenance and operating expenses associated with the recreational facilities. The District uses net revenues from its General Fund to fund such expenses. Proceeds from Series 2020B Bonds will be used for park improvements.

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

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards. According to the District’s Engineer, there are approximately 190 acres of land in the District located in the 100-year flood plain, including approximately 68 acres that are located within the designated floodway. Approximately 197 existing homes and the Spring Hill Village Apartments are located on property at least partially within the 100-year flood plain. There are also 86 developed vacant lots, 191 platted, but undeveloped lots and approximately 59 developable, but undeveloped, acres that are at least partially located with the 100-year flood plain. Mitigation has occurred on the land within the flood-plain (but not within the floodway) which has been developed to date.

### **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 upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. 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.

## USE AND DISTRIBUTION OF BOND PROCEEDS

### THE SERIES 2020A BONDS

The construction costs below were compiled by the District's Engineer and were submitted to the Commission in the District's bond application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the Commission, where required.

#### **CONSTRUCTION COSTS**

Water, sewer and drainage facilities to serve Newport Section 4 Partial Replat No. 1.....	\$	286,641
Water, sewer and drainage facilities to serve Newport Court.....		815,296
Clearing & Grubbing to serve Newport Section 8 Partial Replat Nos. 2, 3 & 4.....		30,742
Water, Sewer and drainage facilities to serve Newport Section 8 Partial Replat No. 3.....		238,189
Water, sewer and drainage facilities to serve Newport Section 8 Partial Replat No. 4.....		656,987
Water, sewer and drainage facilities to serve Newport Section 9.....		675,196
Sanitary Sewer System Improvement Projects.....		1,555,000
Wastewater Treatment Plant Improvement Projects.....		140,000
Water System Improvement Projects.....		485,000
Clearing & Grubbing to serve Newport Section 9 .....		33,809
Engineering & Contingencies.....		1,228,962
Land Costs.....		398,030
<b>Total Construction Related Costs.....</b>	<b>\$</b>	<b>6,543,852</b>

#### **NON-CONSTRUCTION COSTS**

Legal Fees.....	\$	192,500
Fiscal Agent Fees.....		150,000
Developer Interest.....		291,080
Attorney General Fee.....		7,500
Bond Discount (Estimated at 3%).....		225,000
Administration and Bond Issuance Costs.....		29,230
TCEQ Bond Issuance Fees.....		18,750
Bond Application Report Costs.....		42,088
<b>Total Nonconstruction Costs.....</b>	<b>\$</b>	<b>956,148</b>
<b>TOTAL BOND ISSUE.....</b>	<b>\$</b>	<b>7,500,000</b>

## THE SERIES 2020B PARK BONDS

The construction costs below were compiled by the District's Engineer and were submitted to the Commission in the District's bond application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the Commission, where required.

### **CONSTRUCTION COSTS**

Park Improvements .....	\$ 1,012,640
Engineering & Contingencies .....	253,160
<b>Total Construction Related Costs .....</b>	<b>\$ 1,265,800</b>

### **NON-CONSTRUCTION COSTS**

Legal Fees .....	\$ 40,250
Fiscal Agent Fees .....	28,200
Attorney General Fee .....	1,410
Bond Discount (Estimated at 3%) .....	42,300
Administration and Bond Issuance Costs .....	20,603
TCEQ Bond Issuance Fees .....	3,525
Bond Application Report Costs .....	7,912
<b>Total Nonconstruction Costs .....</b>	<b>\$ 144,200</b>
<b>TOTAL BOND ISSUE .....</b>	<b>\$ 1,410,000</b>

### **Future Debt**

The District contains approximately 251 developable acres in the District remaining to be developed. Excluding interest, the Developers have expended less than \$1,000,000 for facilities constructed on behalf of the District, and the District may issue future bonds to repay the Developers in accordance with the various contracts between the Developers and the District. The District expects that additional bond authorization will be necessary to finance facilities to serve the undeveloped acreage and to finance additional wastewater treatment plant capacity and water plant capacity, as well as necessary improvements.

In November 2019, the District conducted a bond election seeking the authorization of \$70,000,000 in additional unlimited tax bonds to finance water, sewer and drainage projects to serve the District for the next ten years. The election failed to pass. The board of directors of the District is currently considering whether to call another election which, if called, would be held in May 2020. If the District is not able to secure voter approval for unlimited tax bonds, it will be required to obtain funds for the necessary plant expansions and infrastructure improvements by raising water and sewer rates, raising its maintenance taxes, issuing revenue bonds, or some combination of these methods.

## WATER AND SEWER OPERATIONS

### General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended December 31, 2015 through 2018 and an unaudited summary from the District's bookkeeper for the period ended October 31, 2019. Reference is made to such statements for further and complete information.

		Fiscal Year Ended December 31			
	1/1/2019 to 10/31/2019 (a)	2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 1,742,083	\$ 1,624,966	\$ 1,605,197	\$ 1,317,974	\$ 853,133
Water Service	1,482,861	1,678,969	1,621,087	1,484,487	1,388,247
Wastewater Service	1,622,508	1,764,496	1,695,662	1,546,942	1,446,150
Standby Fees	2,608	5,392	9,358	8,586	11,246
Penalty and Interest	79,227	94,224	84,440	80,957	80,878
Tap Connection and Inspection Fees	323,925	932,494	679,381	395,900	318,075
Capital Contributions	-	250,000	-	-	-
Groundwater Credits	368,654	243,612	48,978	100,857	56,925
Miscellaneous Revenues	219,063	222,838	167,411	131,953	111,413
<b>Total Revenues</b>	<b>\$ 5,840,930</b>	<b>\$ 6,816,991</b>	<b>\$ 5,911,514</b>	<b>\$ 5,067,656</b>	<b>\$ 4,266,067</b>
<b>Expenditures</b>					
Professional Fees	\$ 367,301	\$ 236,045	\$ 159,165	\$ 114,442	\$ 117,492
Contracted Services	3,329,150	3,526,047	2,818,264	2,643,622	2,351,326
Purchased Water Service	247,403	290,358	276,853	265,081	250,389
Utilities	164,403	211,286	227,994	241,071	231,494
Repairs and Maintenance	923,709	624,480	941,839	684,554	450,053
Other	195,362	643,470	1,342,410 (b)	713,150	535,570
Capital Outlay	-	135,486	66,460	-	-
Note Principal	-	2,954	2,710	2,487	2,281
Note Interest	-	2,326	2,570	2,794	2,999
<b>Total Expenditures</b>	<b>\$ 5,227,328</b>	<b>\$ 5,672,451</b>	<b>\$ 5,838,265</b>	<b>\$ 4,667,201</b>	<b>\$ 3,941,604</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 613,602</b>	<b>\$ 1,144,539</b>	<b>\$ 73,249</b>	<b>\$ 400,455</b>	<b>\$ 324,463</b>
<b>Other Sources (Uses)</b>					
Interfund Transfers In (Out)	\$ -	\$ -	\$ -	\$ 28,402	\$ -
<b>Total Other Financing Sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,402</b>	<b>\$ -</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 3,944,722</b>	<b>\$ 2,800,183</b>	<b>\$ 2,726,934</b>	<b>\$ 2,298,077</b>	<b>\$ 1,973,614</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 4,558,324</b>	<b>\$ 3,944,722</b>	<b>\$ 2,800,183</b>	<b>\$ 2,726,934</b>	<b>\$ 2,298,077</b>

(a) Unaudited. Prepared by the District's bookkeeper.

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds and the estimated debt service requirements for the Bonds at an assumed interest rate of 4.50% per annum.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Series 2020A Bonds			Plus: Debt Service on the Series 2020B Bonds			Total Debt Service Requirements
		Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 1,581,994		\$ 281,250	\$ 281,250		\$ 52,875	\$ 52,875	\$ 1,916,119
2021	1,594,694		337,500	337,500		63,450	63,450	1,995,644
2022	1,612,294		337,500	337,500		63,450	63,450	2,013,244
2023	1,623,444		337,500	337,500		63,450	63,450	2,024,394
2024	1,635,688		337,500	337,500		63,450	63,450	2,036,638
2025	1,648,763		337,500	337,500		63,450	63,450	2,049,713
2026	1,417,294		337,500	337,500		63,450	63,450	1,818,244
2027	1,420,209		337,500	337,500		63,450	63,450	1,821,159
2028	1,390,981		337,500	337,500		63,450	63,450	1,791,931
2029	1,391,109		337,500	337,500		63,450	63,450	1,792,059
2030	870,294	\$ 395,000	328,613	723,613	\$ 80,000	61,650	141,650	1,735,556
2031	873,669	415,000	310,388	725,388	85,000	57,938	142,938	1,741,994
2032	871,063	435,000	291,263	726,263	90,000	54,000	144,000	1,741,325
2033	872,403	450,000	271,350	721,350	95,000	49,838	144,838	1,738,591
2034	872,775	470,000	250,650	720,650	100,000	45,450	145,450	1,738,875
2035	872,400	495,000	228,938	723,938	105,000	40,838	145,838	1,742,175
2036	871,338	515,000	206,213	721,213	105,000	36,113	141,113	1,733,663
2037	874,225	540,000	182,475	722,475	110,000	31,275	141,275	1,737,975
2038	875,225	565,000	157,613	722,613	115,000	26,213	141,213	1,739,050
2039	874,388	590,000	131,625	721,625	120,000	20,925	140,925	1,736,938
2040	448,750	615,000	104,513	719,513	130,000	15,300	145,300	1,313,563
2041	458,156	645,000	76,163	721,163	135,000	9,338	144,338	1,323,656
2042	-	670,000	46,575	716,575	140,000	3,150	143,150	859,725
2043	-	700,000	15,750	715,750	-	-	-	715,750
Total	\$ 24,951,153	\$ 7,500,000	\$ 5,920,875	\$13,420,875	\$ 1,410,000	\$ 1,075,950	\$ 2,485,950	\$ 40,857,978

Maximum Annual Debt Service Requirement (2025)..... \$2,049,713  
Average Annual Debt Service Requirement (2020-2043)..... \$1,702,416

## FINANCIAL STATEMENT

2019 Taxable Assessed Valuation ..... \$683,822,474 (a)

**Direct Debt:**

Outstanding Bonds (as of October 1, 2019) .....	\$19,095,000
Plus: The Series 2020A Bonds and the Series 2020B Park Bonds .....	8,910,000
Gross Debt Outstanding.....	\$28,005,000

**Ratio of Gross Debt to:**

2019 Taxable Assessed Valuation .....	4.10%
---------------------------------------	-------

Area of District – 2,350 Acres  
Estimated 2019 Population – 12,949 (b)

- (a) Value includes \$680,739,467 of taxable value as certified by the Harris County Appraisal District (the “Appraisal District”) and \$3,083,007 of uncertified value, representing the owner’s opinion of value on properties in the District not yet certified for 2019, which totals \$683,822,474. See “TAX PROCEDURES.”
- (b) Based upon 3.5 persons per occupied home and 2 persons per condominium and apartment unit.

**Cash and Investment Balances** (unaudited as of November 21, 2019)

Capital Projects Fund	Cash and Temporary Investments	\$2,706,315
Operating Fund	Cash and Temporary Investments	\$4,552,162
Debt Service Fund	Cash and Temporary Investments	\$1,256,815 (a)

- (a) Neither Texas law nor the Bond Orders requires the District to maintain any minimum balance in the Debt Service Fund.

**District Investment Policy**

The District’s goal is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Funds of the District are invested either in short term U.S. Treasury obligations or certificates of deposit insured by the Federal Deposit Insurance Corporation or secured by collateral held by a third party institution. The District does not own any long term securities or derivative products in the District’s investment portfolio.

**Outstanding Bonds** (as of October 1, 2019)

Series	Original Principal Amount	Outstanding Bonds (as of 10/1/19)
WWSS Combination U/L Tax & Revenue Refunding Bonds, Series 2013	\$ 5,295,000	\$ 3,220,000
WWSS Combination U/L Tax & Revenue Refunding Bonds, Series 2016	3,535,000	3,430,000
Unlimited Tax Bonds, Series 2016A	5,500,000	5,500,000
Unlimited Tax Bonds, Series 2018	4,225,000	4,225,000
Unlimited Tax Refunding Bonds, Series 2019	2,720,000	2,720,000
Total	\$ 21,275,000	\$ 19,095,000

## ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT

Expenditures of the various taxing entities which include the territory in the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District 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 may have issued additional bonds since the date of such reports, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt allocable to the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 2,042,497,125	9/31/2019	0.14%	\$ 2,859,496
Harris Co. Department of Education.....	6,320,000	9/31/2019	0.14%	8,848
Harris Co. Flood Control.....	83,075,000	9/31/2019	0.14%	116,305
Harris Co. Hospital District.....	57,300,000	9/31/2019	0.14%	80,220
Port of Houston Authority.....	593,754,397	9/31/2019	0.14%	831,256
Crosby ISD.....	155,020,000	9/31/2019	32.15%	49,838,930
Total Estimated Overlapping Debt.....				\$ 53,735,055
The District.....	28,005,000 (a)	Current	100.00%	28,005,000
Total Direct and Estimated Overlapping Debt...				\$ 81,740,055
Ratio of Estimated Direct and Overlapping Debt to 2019 Assessed Valuation.....				11.95%

(a) The Bonds and the Outstanding Bonds.

### Overlapping Tax Rates for 2019

	2019 Tax Rate per \$100 of Taxable Assessed Valuation
Harris County (a).....	\$ 0.611700
Crosby ISD.....	1.548350
Harris County ESD No. 80.....	0.050000
Harris County ESD No. 5.....	0.019040
Total Overlapping Tax Rate.....	\$ 2.229090
The District.....	\$ 0.586000
Total Tax Rate.....	\$ 2.815090

(a) Includes Harris County, Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority.



## TAX DATA

### **Tax Collections**

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to these records for further and more complete information.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of October 31, 2019 (a)	
				Amount	Percent
2014	\$ 395,768,918	\$0.640	\$ 2,532,785	\$ 2,527,367	99.79%
2015	439,627,434	0.635	2,791,634	2,783,551	99.71%
2016	491,539,950	0.629	3,091,786	3,078,732	99.58%
2017	539,863,240	0.590	3,185,459	3,167,637	99.44%
2018	594,687,695	0.590	3,509,041	3,463,469	98.70%
2019	680,739,467	0.586	3,989,133	(b)	(b)

(a) Unaudited.

(b) Taxes for 2019 are due January 31, 2020

Taxes are due October 1 and are delinquent after January 31 of the following year. No split payments are allowed, and no discounts are allowed.

### **Tax Rate Distribution**

	2019	2018	2017	2016	2015
Debt Service	\$0.280	\$0.280	\$0.290	\$0.300	\$0.335
Maintenance and Operations	0.306	0.310	0.300	0.329	0.300
Total	\$0.586	\$0.590	\$0.590	\$0.629	\$0.635

### **Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: not to exceed \$1.00 per \$100 assessed valuation  
See "DEFINED AREA."

### **Debt Service Tax**

The Board covenants in the Bond Orders to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 at the rate of \$0.28 per \$100 assessed valuation. See "Tax Rate Distribution" above.

### **Maintenance Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by the District's voters. At an election held May 2, 1998, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation and in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 at the rate of \$0.306 per \$100 assessed valuation. See "Tax Rate Distribution" herein.

### **Defined Area Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the Defined Area's improvements, if such maintenance tax is authorized by the District's voters. At an election held May 6, 2017, the Board was authorized to levy such a maintenance tax in an unlimited amount in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Defined Area bonds, the maintenance tax levied on all property within the District and any additional tax bonds which may be issued in the future. The District levied a maintenance tax in the Defined Area for 2019 at the rate of \$0.664 per \$100 assessed valuation. See "Tax Rate Distribution" above and "DEFINED AREA."

### **Tax Exemptions**

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2019, the District has adopted a \$20,000 exemption for persons who are 65 or older and/or disabled.

### **Additional Penalties**

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

### **Principal Taxpayers**

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 certified tax roll which reflects ownership at January 1, 2019. A principal taxpayer list related to the uncertified portion of the 2019 Taxable Assessed Valuation is not available from the Appraisal District.

Taxpayer	Type of Property	2019 Certified	% of
		Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Spring Hill LLC	Land & Improvements	\$ 4,139,808	0.65%
Friendswood Development Co.	Land & Improvements	3,709,167	0.58%
LDG Newport Village LP	Land & Improvements	3,236,463	0.51%
Centerpoint Energy Hou Electric	Utilities	2,917,000	0.46%
AWIP LP	Land & Improvements	1,840,816	0.29%
Stonebridge At Newport Inc.	Land & Improvements	1,551,305	0.24%
DPC Properties LLC	Land & Improvements	1,300,585	0.20%
Cerberus SFR Holdings LP	Land & Improvements	1,160,663	0.18%
Individual	Land & Improvements	122,292	0.02%
Kavak Family Trust	Land & Improvements	112,497	0.02%
Total		\$ 20,090,596	3.15%

### **Summary of Assessed Valuation**

The District's certified value as of January 1 of each year is used by the District in establishing its tax rate for the same year. See "TAXING PROCEDURES—Levy and Collection of Taxes." The following represents the type of property comprising the District's tax roll for the years 2015 through 2019. A breakdown of the uncertified portion of the 2019 Taxable Assessed Valuation is not available. These values may differ slightly from values in other sections of the Official Statement due to different reporting dates.

	2019	2018	2017	2016	2015
Land	\$ 115,108,154	\$ 92,318,882	\$ 77,927,412	\$ 71,502,780	\$ 69,170,975
Improvements	633,085,609	554,392,830	514,510,534	443,544,897	392,988,112
Personal Property	6,540,341	6,132,123	5,841,176	9,374,875	10,449,466
Exemptions	(73,994,637)	(58,156,140)	(58,415,882)	(32,882,602)	(32,981,119)
Total	<u>\$ 680,739,467</u>	<u>\$ 594,687,695</u>	<u>\$ 539,863,240</u>	<u>\$ 491,539,950</u>	<u>\$ 439,627,434</u>

### **Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Taxable Assessed Valuation of \$683,822,474 and a debt service tax rate necessary to pay the District's average annual and maximum annual debt service requirements on the District's Outstanding Bonds and the Bonds. See "INVESTMENT CONSIDERATIONS—Impact on District Tax Rates."

Average Annual Debt Service Requirement (2020-2043).....	\$1,702,416
\$0.27 Tax Rate on the 2019 Taxable Assessed Valuation.....	\$1,754,005
Maximum Annual Debt Service Requirement (2025).....	\$2,049,713
\$0.32 Tax Rate on the 2019 Taxable Assessed Valuation.....	\$2,078,820

No representations or suggestions are made that the uncertified portion of the 2019 Taxable Assessed Valuation will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAX PROCEDURES."

## **TAX PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Orders 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 may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See "TAX DATA—Maintenance Tax."

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

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here.

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

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For the 2018 tax year, the District has adopted a residential homestead exemption in the amount of \$20,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. See "TAX DATA."

Partially disabled veterans or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

***Residential Homestead Exemptions:*** The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never granted such a general homestead exemption. See "TAX DATA."

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

## **Tax Abatement**

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

## **Valuation of Property for Taxation**

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

The Tax Code permits land designated for agricultural or timber land use to be appraised at its value based on the land's capacity to produce agricultural products or, with respect to timber land, the value based upon accepted income capitalization methods. The Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural, timber land or residential real property appraisal must apply for such appraisal, and the Appraisal District is required to act on each claimant's application individually. If a claimant receives the agricultural or timber land appraisal on land and later changes the land use or sells the land to an unqualified owner, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs that the land was appraised as agricultural or timber land and the tax that would have been imposed had the land been taxed on the basis on market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. Provisions of the Tax Code are complex and are not fully summarized here.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (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 District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

## **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

## **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

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

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the District in that year, subject to certain homestead exemptions. Thus, debt service and contract tax rates cannot be changed by a rollback election.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

### *Special Taxing Units*

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

### *Developed Districts*

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

### *Developing Districts*

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

### *The District*

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

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

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

At any time after taxes on property become delinquent, among other collection methods available, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes". 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 cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS."

### **The Effect of FIRREA on Tax Collections of the District**

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

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

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

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies and Bankruptcy Limitations" below.

### **Recent Extreme Weather Events; Hurricane Harvey**

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days and Tropical Storm Imelda which occurred on November 21, 2019.

According to Professional Utility Services, Inc. (the "Operator"), there was no interruption of water and sewer service as a result of Tropical Storm Imelda, but the District did sustain damage to a stormwater pump station and lift station and force main which required emergency repairs. To the knowledge of the District, approximately 75 homes within the District experienced structural flooding or other damage as a result of Tropical Storm Imelda.

According to the Operator, because the District's Emergency Preparedness Plan was followed, there was no interruption of water and sewer service as a result of Hurricane Harvey, but the District did sustain damage to its wastewater treatment plant and control building, the wastewater treatment plant emergency generator, Water Plant No. 1 booster pump and other facilities. The District Operator, on behalf of the District, submitted claims to the District insurance carrier, and the District has received \$585,443. Any and all damage claims not covered by the District insurance carrier were filed with the Federal Emergency Management Agency (FEMA). As of October 2019, the District has received from FEMA funds in the amount of \$385,856. Additional damage claims are pending and being processed through FEMA. The total District expense for damages claimed due to Hurricane Harvey was over \$1,300,000. The District is currently enrolled in a Federal Mitigation program and is pursuing funds for mitigation planning and projects through FEMA. The District cannot guarantee or represent that it will receive any funds from FEMA, other than funds already received. To the knowledge of the District, approximately 25 homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

*Ponding (or Pluvial) Flood.* 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) Flood.* 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.

### **Economic Factors and Interest Rates**

A portion of the taxable value of the District results from the current market value of developed lots which are currently being marketed by the developers for sale to homebuilders for the construction of residences. The market value of such development is related to general economic conditions in the Houston region and the national economy. The demand for lots and the construction of taxable improvements thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Markets and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

### **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 23 miles from 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 decline in the nation’s real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

### **Competition**

The demand for and construction of single-family homes in the District, which is approximately 23 miles from downtown Houston, could be affected by competition from other residential developments in the northern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of builders in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

### **Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Taxable Assessed Valuation of the District (see “FINANCIAL STATEMENT (UNAUDITED)”) is \$683,822,474. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,049,713 (2025) and the average annual debt service requirement will be \$1,702,416 (2020-2043). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.32 per \$100 taxable assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,049,713 and a tax rate of \$0.27 per \$100 taxable assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,702,416 (see “DEBT SERVICE REQUIREMENTS”). Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2019 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in taxable values depend primarily on the continuing construction and sale of taxable improvements within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.” See “TAX PROCEDURES.”

### **Landowners/Developers Obligation to the District**

There are no commitments from or obligations of any developer or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds continued development of taxable property within the District will increase or maintain its taxable value.

### **Future Debt**

The District has reserved in the Bond Orders the right to issue obligations other than the Bonds and the Outstanding Bonds, including tax anticipation notes, bond anticipation notes, and to borrow for any valid corporate purpose. Voters within the District have authorized the issuance of \$30,000,000 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and \$5,000,000 principal amount of unlimited tax bonds for purposes of financing and constructing recreational facilities, of which \$8,090,000 of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and no unlimited tax bonds for purposes of financing and constructing recreational facilities of will remain authorized but unissued after issuance of the Bonds. The future issuance of additional obligations may adversely affect the security for the Bonds and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuation or tax collections and does not otherwise limit the amount of additional bonds or other obligations which may be issued. The issuance of additional unlimited tax bonds (other than refunding bonds), if any, however, is subject to approval by the Commission under guidelines of feasibility established by the Commission.

Voters within the Defined Area within the District have authorized the issuance of \$50,000,000 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities to serve the Defined Area, all of which remains authorized but unissued. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt” and “THE DISTRICT—General.”

The District contains approximately 251 developable acres in the District remaining to be developed. Excluding interest, the Developers have expended less than \$1,000,000 for facilities constructed on behalf of the District, and the District may issue future bonds to repay the Developers in accordance with the various contracts between the Developers and the District. The District expects that additional bond authorization will be necessary to finance facilities to serve the undeveloped acreage and to finance additional wastewater treatment plant capacity and water plant capacity, as well as necessary improvements to both facilities.

In November 2019, the District conducted a bond election seeking the authorization of \$70,000,000 in additional unlimited tax bonds to finance water, sewer and drainage projects to serve the District for the next ten years. The election failed to pass. The board of directors of the District is currently considering whether to call another election which, if called, would be held in May 2020. If the District is not able to secure voter approval for unlimited tax bonds, it will be required to obtain funds for the necessary plant expansions and infrastructure improvements by raising water and sewer rates, raising its maintenance taxes, issuing revenue bonds, or some combination of these methods.

### **Tax Collections Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See “TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies.”

## **Registered Owners' Remedies and Bankruptcy Limitations**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Orders, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Orders, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Orders. Except for mandamus, the Bond Orders does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Orders may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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

A district may not be forced into bankruptcy involuntarily.

## **Continuing Compliance with Certain Covenants**

The Bond Orders contain covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Orders 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."

## **Marketability**

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

## **Environmental Regulation and Air Quality**

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 released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property; Requiring remedial action to prevent or mitigate pollution;

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

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the 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 area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, 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, 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 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 EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. 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. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

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

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 will officially become final sixty days after its publication in the Federal Register.

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

Due to the pending rulemaking activity, 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.

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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

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

## **LEGAL MATTERS**

### **Legal Opinion**

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property within the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District and that interest on the Bonds is excludable from gross income for federal income tax purposes under existing laws subject to the matters described under the caption which follows entitled "TAX MATTERS."

### **Legal Review**

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for "Book-Entry-Only System"), "TAX PROCEDURES," "THE DISTRICT—General," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

### **No-Litigation Certificate**

The District will furnish to the Initial Purchasers a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### **No Material Adverse Change**

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended, through the date of sale.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Discount Bonds**

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

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

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

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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. 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 the 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 with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

## **Future and Proposed Legislation**

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

## **State, Local and Foreign Taxes**

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

## **Not Qualified Tax-Exempt Obligations for Financial Institutions**

The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.



## **MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned an underlying rating of "A" to the Bonds. An explanation of the rating may be obtained from S&P, 55 Water Street, New York, New York 10041. The rating fees of S&P will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Initial Purchaser.

Application has also been for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Initial Purchaser. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by \_\_\_\_\_ (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of \$ \_\_\_\_\_, representing \_\_\_\_\_% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of \_\_\_\_\_% as calculated pursuant to Chapter 1204 of the Texas Government Code.

### **Prices and Marketability**

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

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

### **Securities Laws**

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

## **PREPARATION OF OFFICIAL STATEMENT**

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

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

## **Financial Advisor**

Masterson Advisors LLC is engaged as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

the summaries of the Bond Orders, District contracts and provisions of state and federal law contained under the captions “THE BONDS (except “Book Entry Only System”),” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS” and “TAX MATTERS”—Smith, Murdaugh, Little & Bonham, L.L.P.; “STATUS OF DEVELOPMENT IN THE DISTRICT” — Lockwood, Andrews & Newnam, Inc. and Professional Utility Services, Inc.; “THE SYSTEM”— Lockwood, Andrews & Newnam, Inc. “SELECTED FINANCIAL INFORMATION,” “ESTIMATED OVERLAPPING DEBT STATEMENT” and “TAX DATA”— Harris County Appraisal District, Assessments of the Southwest, Inc. and the Municipal Advisory Council of Texas.

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, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **Consultants**

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Auditor: The District's audited financial statements for the year ended December 31, 2018, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant. See “APPENDIX A” for a copy of the District's December 31, 2018, audited financial statements.

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and, in particular that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM,” has been provided by Lockwood, Andrews, and Newnam, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity to establish the taxable value of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest, Inc., and is included herein in reliance upon the authority of such person as an expert in assessing and collecting taxes.

Bookkeeper: The information related to the “unaudited” summary of the District's General Operating Fund as it appears in “WATER AND SEWER OPERATIONS” has been provided by McLennan & Associates, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

## **Updating the 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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial 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 as required by law (but not more than 90 days after the date the District delivers the Bonds).

### **Certification of Official Statement**

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Orders, the District has made the following agreement for the benefit of the registered 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 Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA (except for the subsection entitled "Tax Adequacy for Debt Service"), "THE SYSTEM" and "WATER AND SEWER OPERATIONS" (most of which information is contained in the District's annual audit report) and in APPENDIX A. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District 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 the Bond Orders or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Specified Event Notices**

The District will provide timely notices of certain events to the MSRB via EMMA, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or an obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or an obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from the MSRB**

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

### **Limitations and Amendments**

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners and Beneficial Owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating so provided.

### **Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements.

## **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Newport Municipal Utility District, as of the date shown on the cover page.

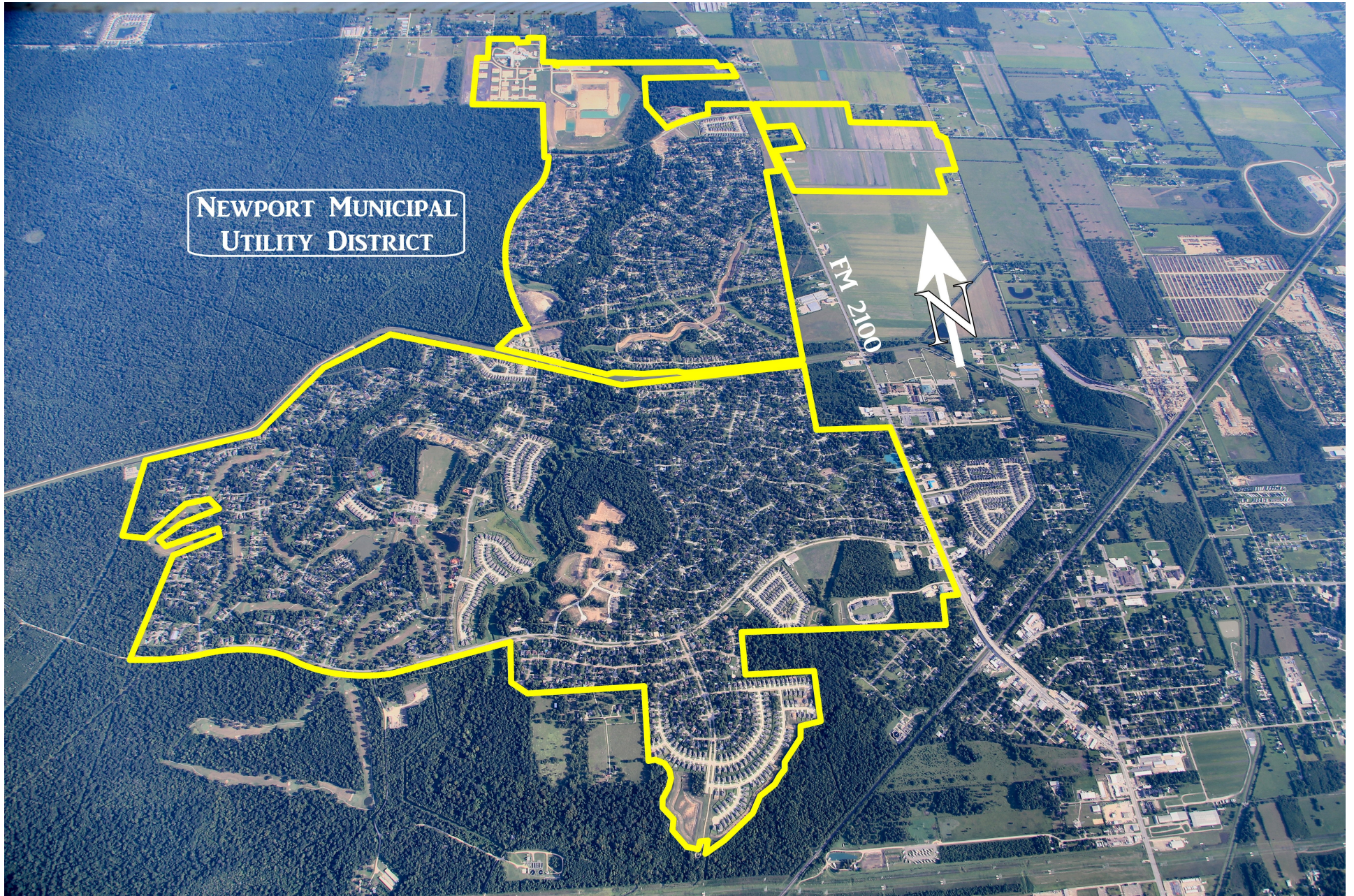
/s/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

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

**AERIAL PHOTOGRAPH**  
**(As of September 2019)**





NEWPORT MUNICIPAL  
UTILITY DISTRICT

FM 2100



**PHOTOGRAPHS OF THE DISTRICT**  
**(As of September 2019)**





















**APPENDIX A**

**District Audited Financial Statements for the fiscal year ended December 31, 2018**



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**HARRIS COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2018**

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



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**HARRIS COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2018**



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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

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Board of Directors  
Newport Municipal Utility District  
Harris County, Texas

## **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities and each major fund of Newport Municipal Utility District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

## **Management's Responsibility for the Financial Statements**

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

## **Auditor's Responsibility**

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

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

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





## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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

April 18, 2019



**NEWPORT MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Management's discussion and analysis of Newport Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. 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 provides 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 presents information that includes all of the District's assets, liabilities, and deferred inflows and 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 resources not accounted for in another fund, customer service revenues, operating costs 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.

**NEWPORT MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**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") and other supplementary information. The budgetary comparison schedule is included as RSI for the General Fund.

**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 \$7,391,857 as of December 31, 2018. A portion of the District's net position reflects its net investments in capital assets (land and land improvements, construction in progress, equipment, buildings, water, wastewater and drainage facilities and parks 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:

**NEWPORT MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 13,130,169	\$ 10,493,030	\$ 2,637,139
Capital Assets (Net of Accumulated Depreciation)	19,512,291	17,432,087	2,080,204
Total Assets	\$ 32,642,460	\$ 27,925,117	\$ 4,717,343
Deferred Outflows of Resources	\$ 527,767	\$ 579,219	\$ (51,452)
Bonds Payable	\$ 20,388,095	\$ 17,108,669	\$ (3,279,426)
Other Liabilities	1,892,926	1,748,489	(144,437)
Total Liabilities	\$ 22,281,021	\$ 18,857,158	\$ (3,423,863)
Deferred Inflows of Resources	\$ 3,497,349	\$ 3,168,449	\$ (328,900)
Net Position:			
Net Investment in Capital Assets	\$ 2,382,257	\$ 2,532,446	\$ (150,189)
Restricted	1,049,945	1,130,355	(80,410)
Unrestricted	3,959,655	2,815,928	1,143,727
Total Net Position	\$ 7,391,857	\$ 6,478,729	\$ 913,128

The following table provides a summary of the District's operations for the years ended December 31, 2018 and December 31, 2017. The District's net position increased by \$913,128.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,188,585	\$ 3,095,357	\$ 93,228
Charges for Services	4,503,790	4,140,610	363,180
Other Revenues	1,185,828	249,934	935,894
Total Revenues	\$ 8,878,203	\$ 7,485,901	\$ 1,392,302
Expenses for Services	7,965,075	7,692,852	(272,223)
Change in Net Position	\$ 913,128	\$ (206,951)	\$ 1,120,079
Net Position, Beginning of Year	6,478,729	6,685,680	(206,951)
Net Position, End of Year	\$ 7,391,857	\$ 6,478,729	\$ 913,128

**NEWPORT MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

The District's combined fund balances as of December 31, 2018, were \$7,900,201, an increase of \$2,233,988 from the prior year.

The General Fund fund balance increased by \$1,144,540, primarily due to service and tax revenues exceeding operating expenditures. The General Fund also received \$804,888 from insurance proceeds and FEMA that was netted with Hurricane Harvey related expenses and capital outlay.

The Debt Service Fund fund balance increased by \$108,435, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by \$981,013. This net increase was primarily due to the Series 2018 bond proceeds remaining after payment of bond issuance costs and capital outlay.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board adopted its 2018 budget at its December 18, 2017 meeting. Actual revenues were \$1,038,020 more than budgeted revenues primarily due to higher than anticipated service and tap revenues, groundwater credits and capital contributions. Actual expenditures were \$189,359 more than budgeted expenditures primarily due to higher than budgeted repairs and maintenance costs, chemicals, capital outlay and professional fees offset by lower contracted services costs.

**CAPITAL ASSETS**

Capital assets as of December 31, 2018, totaled \$19,512,291 (net of accumulated depreciation) and include land and land improvements, construction in progress, buildings, equipment, parks and the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 146,223	\$ 146,223	\$
Construction in Progress	70,453	1,010,638	(940,185)
Capital Assets, Net of Accumulated Depreciation:			
Equipment	88,771	50,418	38,353
Buildings	152,079	158,838	(6,759)
Water System	9,542,076	7,391,155	2,150,921
Wastewater System	6,789,101	6,848,614	(59,513)
Drainage System	1,164,117		1,164,117
Parks	1,559,471	1,826,201	(266,730)
Total Net Capital Assets	<u>\$ 19,512,291</u>	<u>\$ 17,432,087</u>	<u>\$ 2,080,204</u>

**NEWPORT MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**LONG-TERM DEBT ACTIVITY**

At year end, the District had total bond debt payable of \$20,035,000. The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt Payable, January 1, 2018	\$ 16,710,000
Add: Bond Sale	4,225,000
Less: Bond Principal Paid	<u>900,000</u>
Bond Debt Payable, December 31, 2018	<u>\$ 20,035,000</u>

The District's bonds carry an underlying rating of "A" from Standard & Poor's. The District's Series 2008 and 2018 Bonds carry insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation. The District's Series 2009 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Corp. The District's Series 2016 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corp. The above ratings reflect changes through December 31, 2018.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The adopted budget for fiscal year 2019 projects a General Fund fund balance increase of \$331,447.

**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 Newport Municipal Utility District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, TX 77019.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash	\$ 330,528	\$ 2,105,825
Investments	4,489,951	1,264,369
Receivables:		
Property Taxes	724,096	677,266
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$40,000)	387,542	
Groundwater Credit	123,328	
Standby Fees	150,844	
Due from Other Funds	1,144,004	
Prepaid Costs	101,417	
Capital Assets:		
Land and Land Improvements		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 7,451,710</u>	<u>\$ 4,047,460</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	<u>\$ -0-</u>	<u>\$ -0-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 7,451,710</u></u>	<u><u>\$ 4,047,460</u></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 Net Position</u>
\$ 5,092	\$ 2,441,445	\$	\$ 2,441,445
2,844,799	8,599,119		8,599,119
	1,401,362		1,401,362
		75,956	75,956
	387,542		387,542
	123,328		123,328
	150,844	(150,844)	
	1,144,004	(1,144,004)	
	101,417		101,417
		146,223	146,223
		70,453	70,453
		19,295,615	19,295,615
<u>\$ 2,849,891</u>	<u>\$ 14,349,061</u>	<u>\$ 18,293,399</u>	<u>\$ 32,642,460</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 527,767</u>	<u>\$ 527,767</u>
<u>\$ 2,849,891</u>	<u>\$ 14,349,061</u>	<u>\$ 18,821,166</u>	<u>\$ 33,170,227</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 356,907	\$ 32,041
Accrued Interest Payable		7,774
Due to Other Funds		1,065,298
Security Deposits	562,347	
Accrued Interest Payable on Compound Interest Bonds		
Developer Advances	561,478	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Note Payable, Due Within One Year		
Note Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 1,480,732</u>	<u>\$ 1,105,113</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 1,875,411	\$ 1,717,163
Standby Fees	150,844	
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 2,026,255</u>	<u>\$ 1,717,163</u>
<b>FUND BALANCES</b>		
Nonspendable-Prepaid Costs	\$ 101,417	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,225,184
Restricted for Water Facility Expansion to Accommodate Harris Co. MUD No. 525	250,000	
Unassigned	3,593,306	
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,944,723</u>	<u>\$ 1,225,184</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 7,451,710</u>	<u>\$ 4,047,460</u>
<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
\$ 40,891	\$ 429,839	\$	\$ 429,839
	7,774	186,939	194,713
78,706	1,144,004	(1,144,004)	
	562,347		562,347
		121,660	121,660
	561,478		561,478
		940,000	940,000
		19,448,095	19,448,095
		3,220	3,220
		19,669	19,669
<u>\$ 119,597</u>	<u>\$ 2,705,442</u>	<u>\$ 19,575,579</u>	<u>\$ 22,281,021</u>
\$	\$ 3,592,574	\$ (95,225)	\$ 3,497,349
	150,844	(150,844)	
<u>\$ -0-</u>	<u>\$ 3,743,418</u>	<u>\$ (246,069)</u>	<u>\$ 3,497,349</u>
\$	\$ 101,417	\$ (101,417)	\$
2,730,294	2,730,294	(2,730,294)	
	1,225,184	(1,225,184)	
	250,000	(250,000)	
	3,593,306	(3,593,306)	
<u>\$ 2,730,294</u>	<u>\$ 7,900,201</u>	<u>\$ (7,900,201)</u>	<u>\$ - 0 -</u>
<u>\$ 2,849,891</u>	<u>\$ 14,349,061</u>		
		\$ 2,382,257	\$ 2,382,257
		1,049,945	1,049,945
		3,959,655	3,959,655
		<u>\$ 7,391,857</u>	<u>\$ 7,391,857</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds	\$	7,900,201
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Deferred charges on refunding bonds are not expenditures of the current period.		527,767
---------------------------------------------------------------------------------	--	---------

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		19,512,291
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Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.		171,181
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

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	\$ (308,599)	
Bonds Payable	(20,388,095)	
Note Payable	<u>(22,889)</u>	<u>(20,719,583)</u>

Total Net Position - Governmental Activities	\$	<u><u>7,391,857</u></u>
----------------------------------------------	----	-------------------------

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

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**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 1,624,966	\$ 1,575,768
Water Service	1,678,969	
Wastewater Service	1,764,496	
Standby Fees	5,392	
Penalty and Interest	94,224	40,164
Tap Connection and Inspection Fees	932,494	
Groundwater Credits	243,612	
Capital Contributions	250,000	
Miscellaneous Revenues	222,838	28,921
<b>TOTAL REVENUES</b>	<b>\$ 6,816,991</b>	<b>\$ 1,644,853</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 236,045	\$ 2,676
Contracted Services	3,526,047	84,073
Purchased Water Service	290,358	
Utilities	211,285	
Repairs and Maintenance	624,480	
Depreciation		
Other	643,470	5,707
Capital Outlay	135,486	
Debt Service:		
Note Principal	2,954	
Note Interest	2,326	
Bond Principal		900,000
Bond Interest		543,962
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 5,672,451</b>	<b>\$ 1,536,418</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES</b>	<b>\$ 1,144,540</b>	<b>\$ 108,435</b>
<b>OTHER FINANCING SOURCES</b>		
Proceeds from Issuance of Long-Term Debt	\$ -0-	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 1,144,540</b>	<b>\$ 108,435</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JANUARY 1, 2018</b>	<b>2,800,183</b>	<b>1,116,749</b>
<b>FUND BALANCES/NET POSITION - DECEMBER 31, 2018</b>	<b>\$ 3,944,723</b>	<b>\$ 1,225,184</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 3,200,734	\$ (12,149)	\$ 3,188,585
	1,678,969		1,678,969
	1,764,496		1,764,496
	5,392		5,392
	134,388	(11,949)	122,439
	932,494		932,494
	243,612		243,612
	250,000		250,000
42,641	294,400	397,816	692,216
<u>\$ 42,641</u>	<u>\$ 8,504,485</u>	<u>\$ 373,718</u>	<u>\$ 8,878,203</u>
\$	\$ 238,721	\$	\$ 238,721
44,581	3,654,701		3,654,701
	290,358		290,358
	211,285		211,285
	624,480		624,480
		1,297,819	1,297,819
42	649,219		649,219
2,844,721	2,980,207	(2,980,207)	
	2,954	(2,954)	
	2,326		2,326
	900,000	(900,000)	
	543,962	54,920	598,882
397,284	397,284		397,284
<u>\$ 3,286,628</u>	<u>\$ 10,495,497</u>	<u>\$ (2,530,422)</u>	<u>\$ 7,965,075</u>
\$ (3,243,987)	\$ (1,991,012)	\$ 2,904,140	\$ 913,128
\$ 4,225,000	\$ 4,225,000	\$ (4,225,000)	\$ -0-
\$ 981,013	\$ 2,233,988	\$ (2,233,988)	\$
		913,128	913,128
1,749,281	5,666,213	812,516	6,478,729
<u>\$ 2,730,294</u>	<u>\$ 7,900,201</u>	<u>\$ (508,344)</u>	<u>\$ 7,391,857</u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ 2,233,988
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	(12,149)
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.	(11,949)
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.	(1,297,819)
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.	2,980,207
Governmental funds report bond principal payments and note principal payments as expenditures. However, in the Statement of Net Position, the principal portion of bond and note payments are reported as decreases in long-term liabilities.	902,954
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. This adjustment also includes amortization of bond discount, premium and deferred charges.	(54,920)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(4,225,000)
Governmental funds net insurance proceeds with related capital outlay expenditures. However, in the Statement of Net Position, insurance proceeds used for capital outlay are shown as other financing sources.	397,816
Change in Net Position - Governmental Activities	<u>\$ 913,128</u>

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



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 20 (“District No. 20”) was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”), effective December 13, 1972. Harris County Municipal Utility District No. 73 (“District No. 73”) was created by an Order of the Texas Water Rights Commission, presently known as the Commission, effective September 13, 1977. Pursuant to the Texas Water Code, two or more districts governed by the provisions of Chapter 54 may be consolidated to form a single district. The Board of Directors of District No. 20 and District No. 73 agreed to consolidate. Effective May 2, 1998, voters within both districts voted to approve the consolidation into Newport Municipal Utility District (the “District”). Effective August 1, 1998, the District was formed. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 26, 1998, and the first bonds of the District were sold on August 31, 1999.

The District is contiguous to Harris County Municipal Utility District No. 19 (“District No. 19”), which was organized at the inception of the Newport Project to own and operate the regional water supply and distribution and sewage collection and treatment facilities to serve all of the municipal utility districts in the Newport Project. District No. 19 operated in that capacity pursuant to a Water Supply Contract by and among District No. 19, Harris County Municipal Utility District No. 74 (“District No. 74”), District No. 20, District No. 73 and Purcell Co., Inc. (“Purcell”) (a previous developer in the Newport Project) dated May 1, 1978, as amended, and an Amended and Restated Waste Disposal Agreement by and among District No. 19, District No. 74, District No. 20, District No. 73 and Purcell dated September 1, 1980, as amended. District No. 19 owned and operated the central water supply facilities and wastewater treatment facilities for the benefit of other municipal utility districts that in turn provided retail water and wastewater service for all residential and commercial customers in the Newport Project.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1. CREATION OF DISTRICT (Continued)**

After the consolidation of District No. 20 and District No. 73, the District became the only municipal utility district providing retail water and wastewater service to all residential and commercial customers in the Newport Project. In an effort to increase efficiency and reduce overall costs of administration of operations and maintenance of the water supply and wastewater treatment systems and facilities by eliminating certain duplicative administrative expenses, the District agreed to assume the rights, powers, duties and property of District No. 19. Pursuant to a Contract for Assignment of Rights, Powers and Duties and Transfer of Property, District No. 19 and the District agreed to transfer to the District all of District No. 19's rights, powers and duties with respect to all of the existing central water supply and wastewater treatment facilities owned and operated by District No. 19, along with any future expansions or replacement of the facilities. The assignment and transfer were effective as of December 31, 1998, and since the effective date, District No. 19 has been inactive. Dissolution of District No. 19 occurred in 2016. Currently, the District operates all water supply and wastewater treatment plants and facilities in the Newport Project.

**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 (the "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. The GASB has established 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").

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, 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 improvement 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.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Government-Wide Financial Statements (Continued)

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.

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, operating costs 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 restricted, 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 collectible 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 collectible 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.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2017 tax levy collections during the period October 1, 2017 to December 31, 2018, and taxes collected from January 1, 2018 to December 31, 2018, for the 2016 and prior tax levies. The 2018 tax levy has been fully deferred to meet the obligations of the District in the 2019 fiscal year.

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. As of December 31, 2018, the Debt Service Fund owed the General Fund \$1,065,298 for maintenance tax collections and the Capital Projects Fund owed the General Fund \$78,706 for capital related costs.

Capital Assets

Capital assets, which include land and land improvements, construction in progress, equipment, buildings, water, wastewater and drainage systems, and parks, 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 acquisition 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. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 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:

	<u>Years</u>
Buildings	40
Water, Wastewater and Drainage Systems	10-45
Equipment	3-20
Parks	10-35

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

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 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.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Measurement Focus (Continued)

*Assigned:* amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The 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.

**NOTE 3.      BONDS PAYABLE**

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2018:

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	\$ 16,710,000	\$ 4,225,000	\$ 900,000	\$ 20,035,000
Unamortized Discounts	(124,613)		(11,070)	(113,543)
Unamortized Premiums	523,282		56,644	466,638
Bonds Payable, Net	<u>\$ 17,108,669</u>	<u>\$ 4,225,000</u>	<u>\$ 945,574</u>	<u>\$ 20,388,095</u>
			Amount Due Within One Year	\$ 940,000
			Amount Due After One Year	19,448,095
			Bonds Payable, Net	<u>\$ 20,388,095</u>

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3. BONDS PAYABLE (Continued)**

	Series 2008	Series 2009	Refunding Series 2013
Amount Outstanding – December 31, 2018	\$ 255,000	\$ 2,915,000	\$ 3,675,000
Interest Rates	5.20%	4.20% – 4.75%	3.00% – 3.75%
Maturity Dates – Serially Beginning/Ending	April 1, 2019	April 1, 2019/2029	April 1, 2019/2025
Interest Payment Dates	April 1/ October 1	April 1/ October 1	April 1/ October 1
Callable Dates	April 1, 2018*	April 1, 2019*	April 1, 2020*

	Series 2016 Refunding		
	Current Interest Bonds	Compound Interest Bonds	
Amount Outstanding – December 31, 2018	\$ 3,460,000	\$ 5,000	\$ 5,500,000
Interest Rates	2.00% – 4.00%	1.75%	2.125% – 3.00%
Maturity Dates – Serially Beginning/Ending	April 1, 2019, 2021/2029	April 1, 2020	April 1, 2026/2039
Interest Payment Dates	April 1/ October 1	At Maturity	April 1/ October 1
Callable Dates	April 1, 2024**	Non-Callable***	April 1, 2024**

\* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2013 Refunding term bonds due April 1, 2025 are subject to mandatory redemption beginning April 1, 2024.

\*\* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2016A term bonds due April 1, 2031 are subject to mandatory redemption beginning April 1, 2026. Series 2018 term bonds due April 1, 2030 are subject to mandatory redemption beginning April 1, 2029.

\*\*\* The Series 2016 Compound Interest Bonds are non-callable. The par value of these bonds is \$5,000 and the maturity value is \$130,000. Interest on these bonds will be paid at maturity. As of December 31, 2018, the accreted value of these bonds is approximately \$126,660. Accrued interest of \$121,660 has been recorded as a liability in the Statement of Net Position.



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3. BONDS PAYABLE (Continued)**

As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 940,000	\$ 665,169	\$ 1,605,169
2020	855,000	617,742	1,472,742
2021	1,025,000	587,066	1,612,066
2022	1,080,000	551,461	1,631,461
2023	1,130,000	512,727	1,642,727
2024-2028	5,690,000	1,908,985	7,598,985
2029-2033	3,820,000	1,076,868	4,896,868
2034-2038	3,790,000	575,963	4,365,963
2039-2041	1,705,000	76,293	1,781,293
	<u>\$ 20,035,000</u>	<u>\$ 6,572,274</u>	<u>\$ 26,607,274</u>

On August 21, 2018, the District issued its \$4,225,000 Series 2018 Unlimited Tax Bonds to pay costs of water, sewer and drainage facilities to serve Newport Section 8 Replat No. 1; drainage facilities to serve Newport Section 8 Replat No. 2; engineering fees for an expansion to the wastewater treatment plant; smoke testing and manhole inspection services; rehabilitation of wastewater lines; and related bond issuance costs.

As of December 31, 2018, the District had authorized but unissued bonds in the amount of \$15,590,000 for water, sewer and drainage facilities and \$1,410,000 for park facilities.

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and certain bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

During the year ended December 31, 2018, the District levied an ad valorem debt service tax rate of \$0.280 per \$100 of assessed valuation, which resulted in a tax levy of \$1,659,759 on the adjusted taxable valuation of \$592,771,011 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy. The District's tax calendar is as follows:

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3. BONDS PAYABLE (Continued)**

Levy Date - October 1, or as soon thereafter as practicable.  
Lien Date - January 1.  
Due Date - Not later than January 31.  
Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

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

The District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

The District 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.

**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 \$2,441,445 and the bank balance was \$2,522,156. Of the bank balance, \$522,952 was covered by federal depository insurance and the remaining balance was covered by collateral pledged in the name of the District and held in a third-party depository.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2018, as listed below:

GENERAL FUND	\$ 330,528
DEBT SERVICE FUND	2,105,825
CAPITAL PROJECTS FUND	<u>5,092</u>
TOTAL DEPOSITS	<u><u>\$ 2,441,445</u></u>

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

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Investments (Continued)

The District invests in Texas CLASS, an external investment pool that is not SEC-registered. Texas CLASS invests only in securities allowed by the Public Funds Investment Act and is governed by a board of trustees, elected annually by its participants. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor and Wells Fargo Bank, N.A. serves as custodian for the pool. Texas CLASS measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in Texas CLASS at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from Texas CLASS.

As of December 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 954	\$ 954
Texas CLASS	4,488,997	4,488,997
<u>DEBT SERVICE FUND</u>		
TexPool	476	476
Texas CLASS	1,263,893	1,263,893
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	2,844,799	2,844,799
TOTAL INVESTMENTS	<u>\$ 8,599,119</u>	<u>\$ 8,599,119</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, the District's investments in TexPool and Texas CLASS were rated AAAm by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and Texas CLASS to have maturities of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District unless there have been significant changes in value.

Restrictions

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

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 is as follows:

	January 1, 2018	Increases	Decreases	December 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 146,223	\$	\$	\$ 146,223
Construction in Progress	1,010,638	853,465	1,793,650	70,453
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 1,156,861</u>	<u>\$ 853,465</u>	<u>\$ 1,793,650</u>	<u>\$ 216,676</u>
<b>Capital Assets Subject to Depreciation</b>				
Equipment	\$ 193,831	\$ 46,266	\$ 21,953	\$ 218,144
Buildings	193,360			193,360
Water System	14,718,457	2,617,164		17,335,621
Wastewater System	14,727,553	431,107		15,158,660
Drainage System		1,223,671		1,223,671
Parks	3,295,043			3,295,043
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 33,128,244</u>	<u>\$ 4,318,208</u>	<u>\$ 21,953</u>	<u>\$ 37,424,499</u>
<b>Accumulated Depreciation</b>				
Equipment	\$ 143,413	\$ 7,913	\$ 21,953	\$ 129,373
Buildings	34,522	6,759		41,281
Water System	7,327,302	466,243		7,793,545
Wastewater System	7,878,939	490,620		8,369,559
Drainage System		59,554		59,554
Parks	1,468,842	266,730		1,735,572
<b>Total Accumulated Depreciation</b>	<u>\$ 16,853,018</u>	<u>\$ 1,297,819</u>	<u>\$ 21,953</u>	<u>\$ 18,128,884</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 16,275,226</u>	<u>\$ 3,020,389</u>	<u>\$ - 0 -</u>	<u>\$ 19,295,615</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 17,432,087</u>	<u>\$ 3,873,854</u>	<u>\$ 1,793,650</u>	<u>\$ 19,512,291</u>

**NOTE 7. MAINTENANCE TAX**

At an election held on May 2, 1998, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system and for any other lawful purpose. During the year ended December 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.31 per \$100 of assessed valuation, which resulted in a tax levy of \$1,837,590 on the adjusted taxable valuation of \$592,771,011 for the 2018 tax year.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 8. AGREEMENT WITH DEVELOPER**

On April 25, 1991, the districts that now form the District executed an agreement with Purcell, the Developer within the District at that time. The agreement provided for the purchase of a tract of land to be used for the surface water treatment plant at a price of \$25,000. The districts agreed to provide water on an interim basis up to 24,000,000 gallons a year at a cost of \$0.22 per 1,000 gallons of water used by the Newport Country Club Golf Course.

On June 30, 1999, the District executed a First Amendment to Agreement with Stonebridge Properties Corporation (the “Developer”), as successor in interest to Newport Partners and Purcell. The Developer agreed to fund the cost of the distribution line to provide water from a point of connection to the golf course and obtain approval of the San Jacinto River Authority at no cost to the District. The Developer will have a credit applied against the cost of water supplied to the golf course consisting of the \$25,000 original cost of the land plus compounded interest of \$27,032 from the original contract date to present. Future credits are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,220	\$ 2,060	\$ 5,280
2020	3,510	1,770	5,280
2021	3,826	1,454	5,280
2022	4,170	1,110	5,280
2023	4,545	735	5,280
2024	3,618	326	3,944
	<u>\$ 22,889</u>	<u>\$ 7,455</u>	<u>\$ 30,344</u>

In certain years, the Developer has taken water in amounts that are less than the total yearly credit amount, and in other years, the Developer has taken water in amounts that are more than the total credit amount. The District’s requirement to provide raw water at its cost will terminate at the earlier of the payout schedule listed above or December 31, 2030.

**NOTE 9. STANDBY CHARGES**

In a prior fiscal year, the District imposed a standby fee on undeveloped property within the District. The District no longer imposes standby fees. The following is a summary of standby fee transactions for the fiscal year ended December 31, 2018.

Standby Fees Receivable – January 1, 2018	\$ 159,532
Less: Current Year Collections	5,668
Less: Adjustments	<u>3,020</u>
Standby Fees Receivable – December 31, 2018	<u>\$ 150,844</u>

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 11. UNREIMBURSED COSTS**

The District has executed Water, Sewer and Drainage Improvement Financing and Construction Contracts with Developers within the District. These agreements provide for the Developers to advance funds for the contribution of certain facilities with the agreement that the District will use its best efforts to issue, sell and deliver its bonds on the best available terms as soon as reasonably practical and use the proceeds to reimburse the costs incurred by the Developers. The District will not initiate a sale of bonds to pay the reimbursable costs until the District receives the advice of its financial advisor that two tests are met: 1) the sale of bonds will not necessitate the increase in the District's debt service tax rate beyond certain set amounts, and 2) the assessed valuation of the project and all taxable improvements constructed would independently support the issuance of bonds in one or more series to pay the Developers. The District will apply certain formulas to determine when the District is obligated to issue bonds for the purpose of reimbursing the Developers. The amount to be reimbursed to the Developers is limited by certain financial tests in the contracts and rules of the Commission and may not be the full amount expended by the Developers on behalf of the District.

**NOTE 12. WATER SUPPLY CONTRACT**

On April 17, 2008, the District entered into a Water Supply Contract ("Contract") with the San Jacinto River Authority (the "Authority"). The Contract states the Authority will provide up to 1,850,000 gallons of untreated surface water per day ("demand quantity") to the District. The District is obligated to pay the Authority for an average daily quantity equal to the demand quantity, whether actually taken by the District or not, at the applicable rate per 1,000 gallons. The rate as of December 31, 2018, was \$0.43 per 1,000 gallons. During the current fiscal year, the District paid \$290,358 for water purchased in accordance with the Contract. The Contract is in effect for a term of 40 years commencing May 1, 2008.

**NOTE 13. WATER SUPPLY AGREEMENT**

On November 30, 2017, the District entered into a Water Supply Agreement ("Agreement") with Harris County Municipal Utility District No. 525 ("HCMUD 525"). The Agreement states HCMUD 525 will construct a water supply line and related facilities from the District to HCMUD 525 allowing the District to serve HCMUD 525 with equivalent single-family connections ("ESFCs"). Per the Agreement, the District shall never be obligated to provide more than 1,450 ESFCs to HCMUD 525. The price to be paid by HCMUD 525 to the District per

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 13. WATER SUPPLY AGREEMENT (Continued)**

1,000 gallons of potable water is a base rate plus the price charged by the Authority to the District for raw water. The initial base rate is \$5.16 effective until December 31, 2018. Subsequently, the base rate is adjusted once each year on January 1 by 100% of the increase in the consumer price index as defined in the Agreement. The Agreement is in effect for a term of 40 years commencing November 30, 2017.

**NOTE 14. DEFINED AREA**

At an election held on May 6, 2017, the voters of the District approved the establishment of a Defined Area within the District as well as issuance of bonds to benefit the Defined Area in the maximum amount of \$50,000,000 to be used for water, sewer and drainage system improvements and the levy and collection of a tax upon all taxable property within the Defined Area to provide for payment of principal and interest on such bonds. During the year ended December 31, 2018, the District did not levy a tax nor issue bonds related to the Defined Area.

**NOTE 15. LEASE AGREEMENTS**

On January 1, 1997, the District entered into a Site Agreement to lease property to a third party for the purpose of constructing, maintaining and operating a communication facility, including tower structures and other related equipment. The term of this Site Agreement was December 31, 2001 with four five-year renewal option periods. On August 16, 2018, the District entered into the First Amendment to Site Agreement which extended the term of the lease for another five additional five-year renewal option periods. During fiscal year 2018, the District recognized \$11,745 of revenue related to this agreement. Future rental income expected from this agreement is \$8,745, \$8,745 and \$8,745 for the fiscal years ending 2019, 2020 and 2021, respectively.

On November 28, 2007, the District entered into a Communications Facilities License Agreement ("CFLA") to provide a third party with facilities for housing and operating certain communications equipment. The term of the CFLA is ten years with four additional five-year option renewal periods. Annual rent expense is increased by 4% each year. For the year ended December 31, 2018, the District recognized \$19,539 related to the CFLA. Future rental income expected from this agreement is \$20,321, \$21,134, \$21,979 and \$22,858 for the fiscal years ending 2019, 2020, 2021 and 2022, respectively.



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 16. SUBSEQUENT EVENT – REFUNDING BOND SALE**

Subsequent to the report date, on or about April 25, 2019, the District expects to close on its \$2,720,000 Series 2019 Unlimited Tax Refunding Bonds. Proceeds from the bonds will be used to refund and defease \$2,720,000 of the Series 2009 bonds with interest rates of between 4.20% and 4.75%, maturities ranging from 2020 to 2029 and a redemption date of May 1, 2019. Gross debt service savings are expected to be \$194,568 and net present value savings are expected to be \$164,063.

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**NEWPORT MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018**



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Property Taxes	\$ 1,583,091	\$ 1,624,966	\$ 41,875
Water Service	1,589,775	1,678,969	89,194
Wastewater Service	1,687,854	1,764,496	76,642
Standby Fees	7,360	5,392	(1,968)
Penalty and Interest	82,872	94,224	11,352
Tap Connection and Inspection Fees	624,000	932,494	308,494
Groundwater Credits	48,156	243,612	195,456
Capital Contributions		250,000	250,000
Miscellaneous Revenues	<u>155,863</u>	<u>222,838</u>	<u>66,975</u>
<b>TOTAL REVENUES</b>	<u>\$ 5,778,971</u>	<u>\$ 6,816,991</u>	<u>\$ 1,038,020</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 141,600	\$ 236,045	\$ (94,445)
Contracted Services	3,921,737	3,526,047	395,690
Purchased Water Service	289,690	290,358	(668)
Utilities	233,465	211,285	22,180
Repairs and Maintenance	403,211	624,480	(221,269)
Other	493,389	648,750	(155,361)
Capital Outlay	<u></u>	<u>135,486</u>	<u>(135,486)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 5,483,092</u>	<u>\$ 5,672,451</u>	<u>\$ (189,359)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 295,879	\$ 1,144,540	\$ 848,661
<b>FUND BALANCE - JANUARY 1, 2018</b>	<u>2,800,183</u>	<u>2,800,183</u>	<u></u>
<b>FUND BALANCE - DECEMBER 31, 2018</b>	<u>\$ 3,096,062</u>	<u>\$ 3,944,723</u>	<u>\$ 848,661</u>

See accompanying independent auditor's report.

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**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**DECEMBER 31, 2018**





**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:**

<u>  X  </u>	Retail Water	<u>      </u>	Wholesale Water	<u>  X  </u>	Drainage
<u>  X  </u>	Retail Wastewater	<u>      </u>	Wholesale Wastewater	<u>      </u>	Irrigation
<u>  X  </u>	Parks/Recreation	<u>      </u>	Fire Protection	<u>      </u>	Security
<u>  X  </u>	Solid Waste/Garbage	<u>      </u>	Flood Control	<u>      </u>	Roads
<u>      </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u>      </u>	Other (specify): _____				

**2. RETAIL SERVICE PROVIDERS**

**a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):**

Based on the rate order effective October 1, 2018.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 26.85	4,000	N	\$ 2.80	4,001 and up
WASTEWATER:	\$ 30.15	4,000	N	\$ 2.20	4,001 and up
SURCHARGE:					
Solid Waste/ Garbage	Included in wastewater charges				

District employs winter averaging for wastewater usage?	<u>      </u>	<u>  X  </u>
	Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$43.65 Wastewater: \$43.35 Total: \$87.00

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>3,792</u>	<u>3,738</u>	x 1.0	<u>3,738</u>
1"	<u>30</u>	<u>30</u>	x 2.5	<u>75</u>
1½"	<u>4</u>	<u>4</u>	x 5.0	<u>20</u>
2"	<u>15</u>	<u>15</u>	x 8.0	<u>120</u>
3"	<u>3</u>	<u>3</u>	x 15.0	<u>45</u>
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"			x 115.0	
Total Water Connections	<u>3,851</u>	<u>3,797</u>		<u>4,388</u>
Total Wastewater Connections	<u>3,788</u>	<u>3,740</u>	x 1.0	<u>3,740</u>

**3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)**

Gallons pumped into system:	335,385,000	Water Accountability Ratio: 95% (Gallons billed/Gallons pumped)
Gallons billed to customers:	318,051,000	
Gallons purchased:	675,250,000*	From: San Jacinto River Authority

\* Represents the take-or-pay amount from the San Jacinto River Authority

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**4. STANDBY FEES \*\***(authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

**\*\*** The District no longer assesses standby fees, but is still collecting fees due from prior years.

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

Is the District located within a city's extraterritorial jurisdiction (ETJ)?

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 18,500
Engineering	94,713
Legal	<u>122,832</u>
TOTAL PROFESSIONAL FEES	\$ 236,045
PURCHASED WATER SERVICE	<u>\$ 290,358</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 30,431
Operations and Billing	<u>2,948,228</u>
TOTAL CONTRACTED SERVICES	<u>\$ 2,978,659</u>
UTILITIES:	
Electricity	\$ 197,178
Telephone	<u>14,107</u>
TOTAL UTILITIES	\$ 211,285
REPAIRS AND MAINTENANCE	<u>\$ 624,480</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 25,800
Dues	5,631
Election Costs	19,632
Insurance	93,152
Office Supplies and Postage	679
Payroll Administration	1,686
Payroll Taxes	1,939
Travel and Meetings	365
Other	<u>3,957</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 152,841
CAPITAL OUTLAY	<u>\$ 135,486</u>
SOLID WASTE DISPOSAL	<u>\$ 547,388</u>
OTHER EXPENDITURES:	
Chemicals	\$ 241,949
Monitoring and Testing	31,096
Laboratory Fees	6,355
Permit Fees	23,979
Reconnection Fees	64,710
Regulatory Assessment	17,139
Sludge Hauling	96,975
Other	<u>8,426</u>
TOTAL OTHER EXPENDITURES	<u>\$ 490,629</u>
DEBT SERVICE:	
Note Principal	\$ 2,954
Note Interest	<u>2,326</u>
TOTAL DEBT SERVICE	\$ 5,280
TOTAL EXPENDITURES	<u>\$ 5,672,451</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**DECEMBER 31, 2018**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 954	\$
Texas CLASS	XXXX0001	Varies	Daily	4,488,997	
TOTAL GENERAL FUND				<u>\$ 4,489,951</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 476	\$
Texas CLASS	XXXX0002	Varies	Daily	1,263,893	
TOTAL DEBT SERVICE FUND				<u>\$ 1,264,369</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 2,844,799	\$ -0-
TOTAL - ALL FUNDS				<u><u>\$ 8,599,119</u></u>	<u><u>\$ -0-</u></u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
JANUARY 1, 2018	\$ 595,558		\$ 601,289	
Adjustments to Beginning				
Balance	<u>10,139</u>	\$ 605,697	<u>11,324</u>	\$ 612,613
Original 2018 Tax Levy	\$ 1,731,336		\$ 1,563,787	
Adjustment to 2018 Tax Levy	<u>106,254</u>	<u>1,837,590</u>	<u>95,972</u>	<u>1,659,759</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 2,443,287		\$ 2,272,372
TAX COLLECTIONS:				
Prior Years	\$ 567,876		\$ 555,209	
Current Year	<u>1,151,315</u>	<u>1,719,191</u>	<u>1,039,897</u>	<u>1,595,106</u>
TAXES RECEIVABLE -				
DECEMBER 31, 2018		<u>\$ 724,096</u>		<u>\$ 677,266</u>
TAXES RECEIVABLE BY				
YEAR:				
2018		\$ 686,275		\$ 619,862
2017		15,108		14,604
2016		8,428		7,685
2015		4,634		5,174
2014		2,163		4,276
2013		1,814		3,586
2012		1,298		2,566
2011		1,168		2,308
2010		892		1,893
2009 and Prior		<u>2,316</u>		<u>15,312</u>
TOTAL		<u>\$ 724,096</u>		<u>\$ 677,266</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 90,162,870	\$ 72,840,019	\$ 69,479,944	\$ 65,525,556
Improvements	553,257,626	487,975,726	439,859,024	383,797,757
Personal Property	5,119,528	5,023,214	6,413,170	9,390,262
Exemptions	<u>(55,769,013)</u>	<u>(28,813,702)</u>	<u>(28,654,185)</u>	<u>(22,792,138)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 592,771,011</u>	<u>\$ 537,025,257</u>	<u>\$ 487,097,953</u>	<u>\$ 435,921,437</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.280	\$ 0.290	\$ 0.300	\$ 0.335
Maintenance	<u>0.310</u>	<u>0.300</u>	<u>0.329</u>	<u>0.300</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.590</u>	<u>\$ 0.590</u>	<u>\$ 0.629</u>	<u>\$ 0.635</u>
ADJUSTED TAX LEVY*	<u>\$ 3,497,349</u>	<u>\$ 3,168,449</u>	<u>\$ 3,063,845</u>	<u>\$ 2,768,553</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>62.65 %</u>	<u>99.06 %</u>	<u>99.47 %</u>	<u>99.65 %</u>

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on May 2, 1998.

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

Due During Fiscal Years Ending December 31	S E R I E S - 2 0 0 8		
	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 255,000	\$ 6,630	\$ 261,630
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 255,000</u>	<u>\$ 6,630</u>	<u>\$ 261,630</u>

See accompanying independent auditor's report.



**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 0 9			
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 195,000	\$ 124,747	\$ 319,747
2020	205,000	116,348	321,348
2021	220,000	107,422	327,422
2022	235,000	97,867	332,867
2023	250,000	87,683	337,683
2024	265,000	76,735	341,735
2025	280,000	64,877	344,877
2026	300,000	51,968	351,968
2027	315,000	37,973	352,973
2028	295,000	23,795	318,795
2029	355,000	8,432	363,432
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 2,915,000</u>	<u>\$ 797,847</u>	<u>\$ 3,712,847</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 3 R E F U N D I N G			
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 455,000	\$ 117,625	\$ 572,625
2020	475,000	103,675	578,675
2021	495,000	89,125	584,125
2022	520,000	72,600	592,600
2023	550,000	53,875	603,875
2024	575,000	33,469	608,469
2025	605,000	11,344	616,344
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 3,675,000</u>	<u>\$ 481,713</u>	<u>\$ 4,156,713</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 6 R E F U N D I N G			
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$ 35,000	\$ 126,000	\$ 161,000
2020	175,000	123,100	298,100
2021	310,000	115,900	425,900
2022	325,000	106,375	431,375
2023	330,000	96,550	426,550
2024	345,000	84,700	429,700
2025	360,000	70,600	430,600
2026	375,000	55,900	430,900
2027	385,000	40,700	425,700
2028	405,000	24,900	429,900
2029	420,000	8,400	428,400
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 3,465,000</u>	<u>\$ 853,125</u>	<u>\$ 4,318,125</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 6 A			
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$	\$ 134,681	\$ 134,681
2020		134,681	134,681
2021		134,681	134,681
2022		134,681	134,681
2023		134,681	134,681
2024		134,681	134,681
2025		134,681	134,681
2026	280,000	131,706	411,706
2027	295,000	125,597	420,597
2028	310,000	119,169	429,169
2029	325,000	112,422	437,422
2030	340,000	105,356	445,356
2031	360,000	97,919	457,919
2032	375,000	89,875	464,875
2033	395,000	80,966	475,966
2034	415,000	71,088	486,088
2035	435,000	60,463	495,463
2036	455,000	49,338	504,338
2037	480,000	37,350	517,350
2038	505,000	23,475	528,475
2039	530,000	7,950	537,950
2040			
2041			
	<u>\$ 5,500,000</u>	<u>\$ 2,055,441</u>	<u>\$ 7,555,441</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 8			
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	\$	\$ 155,486	\$ 155,486
2020		139,938	139,938
2021		139,938	139,938
2022		139,938	139,938
2023		139,938	139,938
2024		139,938	139,938
2025		139,938	139,938
2026	100,000	138,438	238,438
2027	100,000	135,438	235,438
2028	100,000	132,438	232,438
2029	50,000	130,187	180,187
2030	300,000	124,937	424,937
2031	300,000	115,750	415,750
2032	300,000	106,187	406,187
2033	300,000	96,437	396,437
2034	300,000	86,687	386,687
2035	300,000	76,937	376,937
2036	300,000	67,000	367,000
2037	300,000	56,875	356,875
2038	300,000	46,750	346,750
2039	300,000	36,437	336,437
2040	425,000	23,750	448,750
2041	450,000	8,156	458,156
	<u>\$ 4,225,000</u>	<u>\$ 2,377,518</u>	<u>\$ 6,602,518</u>

See accompanying independent auditor's report.

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**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 940,000	\$ 665,169	\$ 1,605,169
2020	855,000	617,742	1,472,742
2021	1,025,000	587,066	1,612,066
2022	1,080,000	551,461	1,631,461
2023	1,130,000	512,727	1,642,727
2024	1,185,000	469,523	1,654,523
2025	1,245,000	421,440	1,666,440
2026	1,055,000	378,012	1,433,012
2027	1,095,000	339,708	1,434,708
2028	1,110,000	300,302	1,410,302
2029	1,150,000	259,441	1,409,441
2030	640,000	230,293	870,293
2031	660,000	213,669	873,669
2032	675,000	196,062	871,062
2033	695,000	177,403	872,403
2034	715,000	157,775	872,775
2035	735,000	137,400	872,400
2036	755,000	116,338	871,338
2037	780,000	94,225	874,225
2038	805,000	70,225	875,225
2039	830,000	44,387	874,387
2040	425,000	23,750	448,750
2041	450,000	8,156	458,156
	<u>\$ 20,035,000</u>	<u>\$ 6,572,274</u>	<u>\$ 26,607,274</u>

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**CHANGES IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2018	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2008	\$ 4,685,000	\$ 500,000	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2009	3,590,000	3,100,000	
Newport Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2013	5,295,000	4,110,000	
Newport Municipal Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2016	3,535,000	3,500,000	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2016A	5,500,000	5,500,000	
Newport Municipal Utility District Unlimited Tax Bonds - Series 2018	<u>4,225,000</u>	<u></u>	
TOTAL	<u>\$ 26,830,000</u>	<u>\$ 16,710,000</u>	
Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>	<u>Park Bonds</u>
Amount Authorized by Voters	\$ 59,150,000	\$	\$ 5,000,000
Amount Issued	<u>43,560,000</u>	<u></u>	<u>3,590,000</u>
Remaining to be Issued	\$ 15,590,000	\$ *	\$ 1,410,000

See accompanying independent auditor's report.



Current Year Transactions				Bonds Outstanding December 31, 2018	Paying Agent
Bonds Sold	Retirements				
	Principal	Interest			
\$	\$ 245,000	\$ 20,151	\$ 255,000		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	185,000	132,543	2,915,000		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	435,000	129,887	3,675,000		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	35,000	126,700	3,465,000		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		134,681	5,500,000		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>4,225,000</u>			<u>4,225,000</u>		The Bank of New York Mellon Trust Company, N.A. Dallas, TX
\$ 4,225,000	\$ 900,000	\$ 543,962	\$ 20,035,000		

Debt Service Fund cash and investment balances as of December 31, 2018: \$ 3,370,194

Average annual debt service payment (principal and interest) for remaining term  
of all debt: \$ 1,156,838

See Note 3 for interest rates, interest payment dates and maturity dates.

\* 1 1/2 times bonds outstanding.

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,624,966	\$ 1,605,197	\$ 1,317,974
Water Service	1,678,969	1,621,087	1,484,487
Wastewater Service	1,764,496	1,695,662	1,546,942
Base Revenue			
Standby Fees	5,392	9,358	8,586
Penalty and Interest	94,224	84,440	80,957
Tap Connection and Inspection Fees	932,494	679,381	395,900
Groundwater Credits	243,612	48,978	100,857
Capital Contributions	250,000		
Miscellaneous Revenues	222,838	167,411	131,953
<b>TOTAL REVENUES</b>	<u>\$ 6,816,991</u>	<u>\$ 5,911,514</u>	<u>\$ 5,067,656</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 236,045	\$ 159,165	\$ 114,442
Contracted Services	3,526,047	2,818,264	2,643,622
Purchased Water Service	290,358	276,853	265,081
Utilities	211,285	227,994	241,071
Repairs and Maintenance	624,480	941,839	684,554
Other	643,470	1,342,410	713,150
Capital Outlay	135,486	66,460	
Note Principal	2,954	2,710	2,487
Note Interest	2,326	2,570	2,794
<b>TOTAL EXPENDITURES</b>	<u>\$ 5,672,451</u>	<u>\$ 5,838,265</u>	<u>\$ 4,667,201</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 1,144,540</u>	<u>\$ 73,249</u>	<u>\$ 400,455</u>
<b>OTHER FINANCING SOURCES</b>			
Transfer In	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 28,402</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 1,144,540</u>	<u>\$ 73,249</u>	<u>\$ 428,857</u>
<b>BEGINNING FUND BALANCE</b>	<u>2,800,183</u>	<u>2,726,934</u>	<u>2,298,077</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 3,944,723</u>	<u>\$ 2,800,183</u>	<u>\$ 2,726,934</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2015	2014	2018	2017	2016	2015	2014		
\$ 853,133	\$ 776,168	23.7 %	27.2 %	26.0 %	20.0 %	19.0 %		
1,388,247	1,285,762	24.6	27.4	29.3	32.5	31.6		
1,446,150	938,604	25.9	28.7	30.5	33.9	23.0		
	379,002					9.3		
11,246	3,377	0.1	0.2	0.2	0.3	0.1		
80,878	77,929	1.4	1.4	1.6	1.9	1.9		
318,075	471,623	13.7	11.5	7.8	7.5	11.6		
56,925	23,700	3.6	0.8	2.0	1.3	0.6		
		3.7						
111,413	117,727	3.3	2.8	2.6	2.6	2.9		
\$ 4,266,067	\$ 4,073,892	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %		
\$ 117,492	\$ 86,423	3.5 %	2.7 %	2.4 %	2.8 %	2.1 %		
2,351,326	2,089,310	51.7	47.7	52.2	55.1	51.3		
250,389	229,585	4.3	4.7	5.2	5.9	5.6		
231,494	271,373	3.1	3.9	4.8	5.4	6.7		
450,053	418,805	9.2	15.9	13.5	10.5	10.3		
535,570	613,237	9.4	22.7	14.2	12.6	15.1		
		2.0	1.1					
2,281	2,093				0.1	0.1		
2,999	3,187			0.1	0.1	0.1		
\$ 3,941,604	\$ 3,714,013	83.2 %	98.7 %	92.4 %	92.5 %	91.3 %		
\$ 324,463	\$ 359,879	16.8 %	1.3 %	7.6 %	7.5 %	8.7 %		
\$ - 0 -	\$ - 0 -							
\$ 324,463	\$ 359,879							
1,973,614	1,613,735							
\$ 2,298,077	\$ 1,973,614							

See accompanying independent auditor's report.

**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,575,768	\$ 1,473,609	\$ 1,505,111
Penalty and Interest	40,164	49,699	68,068
Miscellaneous Revenues	28,921	11,722	4,873
<b>TOTAL REVENUES</b>	<u>\$ 1,644,853</u>	<u>\$ 1,535,030</u>	<u>\$ 1,578,052</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 88,956	\$ 98,095	\$ 82,517
Debt Service Principal	900,000	855,000	780,000
Debt Service Interest and Fees	547,462	579,805	498,145
Bond Issuance Costs			148,804
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,536,418</u>	<u>\$ 1,532,900</u>	<u>\$ 1,509,466</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 108,435</u>	<u>\$ 2,130</u>	<u>\$ 68,586</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds of Refunding Bonds	\$	\$	\$ 3,535,000
Payment to Refunded Bond Escrow Agent			(3,864,167)
Bond Premium			479,999
<b>TOTAL OTHER FINANCING SOURCES, NET</b>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 150,832</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 108,435	\$ 2,130	\$ 219,418
<b>BEGINNING FUND BALANCE</b>	<u>1,116,749</u>	<u>1,114,619</u>	<u>895,201</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,225,184</u>	<u>\$ 1,116,749</u>	<u>\$ 1,114,619</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>3,797</u>	<u>3,611</u>	<u>3,400</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>3,740</u>	<u>3,562</u>	<u>3,354</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues					
2015	2014	2018	2017	2016	2015	2014	
\$ 1,706,309	\$ 1,545,265	95.8 %	96.0 %	95.4 %	96.0 %	97.0 %	
69,350	47,960	2.4	3.2	4.3	3.9	3.0	
1,781	455	1.8	0.8	0.3	0.1		
<u>\$ 1,777,440</u>	<u>\$ 1,593,680</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	
\$ 100,940	\$ 91,859	5.4 %	6.4 %	5.2 %	5.7 %	5.8 %	
1,080,000	1,130,000	54.7	55.7	49.4	60.8	70.9	
630,730	605,421	33.3	37.8	31.6	35.5	38.0	
				9.4			
<u>\$ 1,811,670</u>	<u>\$ 1,827,280</u>	<u>93.4 %</u>	<u>99.9 %</u>	<u>95.6 %</u>	<u>102.0 %</u>	<u>114.7 %</u>	
<u>\$ (34,230)</u>	<u>\$ (233,600)</u>	<u>6.6 %</u>	<u>0.1 %</u>	<u>4.4 %</u>	<u>(2.0) %</u>	<u>(14.7) %</u>	
\$	\$						
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>						
\$ (34,230)	\$ (233,600)						
929,431	1,163,031						
<u>\$ 895,201</u>	<u>\$ 929,431</u>						
<u>3,219</u>	<u>3,096</u>						
3,196	3,099						

See accompanying independent auditor's report.

District Mailing Address - Newport Municipal Utility District  
c/o Smith, Murdaugh, Little & Bonham, L.L.P.  
2727 Allen Parkway, Suite 1100  
Houston, TX 77019

District Telephone Number - (713) 652-6500

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
October 16, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 23, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

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**NEWPORT MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2018</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	08/01/98	\$ 153,495	General Counsel/ Delinquent Tax
		\$ 23,687	Attorney
		\$ 112,245	Bond Related
McCall Gibson Swedlund Barfoot PLLC	12/15/99	\$ 18,500	Auditor
		\$ 8,900	Bond Related
McLennan & Associates	03/24/04	\$ 31,117	Bookkeeper
		\$ 3,060	Bond Related
Lockwood, Andrews and Newman, Inc.	02/21/19	\$ -0-	Engineer
IDS Engineering Group	06/28/18	\$ 87,113	Former Engineer
ARKK Engineers, LLC	06/24/13	\$ 66,986	Former Engineer
Masterson Advisors	04/26/18	\$ 90,485	Financial Advisor
Jorge Diaz	01/26/17	\$ -0-	Investment Officer
Professional Utility Services, Inc.	08/01/98	\$ 3,057,051	Operator
Thomas Lee, RTA	08/01/98	\$ 54,295	Tax Assessor/ Collector

See accompanying independent auditor's report.