

## OFFICIAL STATEMENT DATED DECEMBER 12, 2019

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 THE 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 HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

### NEW ISSUE-Book-Entry-Only

Insured Rating (AGM): S&P "AA" (stable outlook)  
Underlying Rating: S&P "A"  
See "MUNICIPAL BOND RATING" and  
"MUNICIPAL BOND INSURANCE" herein.

**\$3,515,000**  
**NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6**  
*(A political subdivision of the State of Texas located within Harris County)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2020**

The bonds described above (the "Bonds") are obligations solely of Northwest Harris County Municipal Utility District No. 6 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

**Interest Accrues from: January 1, 2020**

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

Principal of the Bonds is payable at maturity or earlier redemption 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") upon surrender of the Bonds for payment. Interest on the Bonds accrues from January 1, 2020, and is payable each April 1 and October 1, commencing April 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown 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. See "BOOK-ENTRY-ONLY SYSTEM."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See "MUNICIPAL BOND INSURANCE" herein.

### MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due	Principal	Interest	Initial	CUSIP	Due	Principal	Interest	Initial	CUSIP
(April 1)	Amount	Rate	Reoffering	Number (c)	(April 1)	Amount	Rate	Reoffering	Number (c)
2021	\$ 15,000	2.000 %	1.450 %	667489 JL3	2029	\$ 165,000 (b)	2.000 %	2.250 %	667489 JU3
2022	15,000	2.000	1.500	667489 JM1	2030	220,000 (b)	2.250	2.370	667489 JV1
2023	15,000	2.000	1.560	667489 JN9	2031	225,000 (b)	2.250	2.470	667489 JW9
2024	90,000	3.000	1.630	667489 JP4	2032	235,000 (b)	2.375	2.520	667489 JX7
2025	85,000	3.000	1.720	667489 JQ2	2033	510,000 (b)	3.000	2.330	667489 JY5
2026	85,000 (b)	3.000	1.850	667489 JR0	2034	540,000 (b)	3.000	2.420	667489 JZ2
2027	85,000 (b)	3.000	1.940	667489 JS8	2035	560,000 (b)	3.000	2.460	667489 KA5
2028	85,000 (b)	3.250	2.060	667489 JT6	2036	585,000 (b)	3.000	2.500	667489 KB3

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. Accrued interest from January 1, 2020 is to be added to the price.
- (b) Bonds maturing on or after April 1, 2026 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."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of 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 within the District. THE BONDS AND THE ISSUANCE THEREOF ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds through DTC is expected on or about January 15, 2020.

**BAIRD**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, contracts, audits, 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 the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 upon payment of the costs for duplication thereof.

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 condition 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 Underwriter of the Bonds, unless the Underwriter 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).

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

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

### **The Underwriter**

The Bonds are being purchased by Robert W. Baird & Co. Incorporated (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$3,545,898.25 (representing the par amount of the Bonds of \$3,515,000.00, plus a net premium on the Bonds of \$71,688.50, less an Underwriter’s discount of \$40,790.25) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

### **Prices and Marketability**

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

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

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information and financial statements contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used only in conjunction with more complete information contained herein.

### THE DISTRICT

*Description* ..... Northwest Harris County Municipal Utility District No. 6 (the “District”), located in Harris County, Texas, is a governmental agency and a political subdivision of the State of Texas which was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission”), by order effective October 21, 1975. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 417 acres.

*Location* ..... The District is located in northwest Harris County, approximately 15 miles northwest of downtown Houston, Texas. Access to the District is provided by the Sam Houston Tollway and State Highway 249. The District is one mile south of FM 1960 and one mile west of Champion Forest Drive. The District is located entirely within the extraterritorial jurisdiction of the City of Houston.

#### *Recent Extreme Weather Events*

*Hurricane Harvey* ..... The greater Houston area, including the District, 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. According to M. Marlon Ivy & Associates, Inc., the District’s utility system operator, the District’s water, sewer and drainage system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial properties within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

*Status of Development* ..... The District has been developed as a mixed-use project. Approximately 164 acres have been developed into 634 single family lots in Cutten Green, Sections 1 and 2. As of September 17, 2019, there were 625 completed and occupied homes and 6 completed and unoccupied homes. The average home value in the District according to the Harris County Appraisal District is \$184,455.

In addition to the single family residential development, approximately 176 acres of land have been developed for commercial and office/warehouse purposes. The commercial development includes an approximately 260,000 square foot warehouse owned by Houston Distributing Company, a beverage distributor; an office warehouse owned by BMCW South which provides building materials; a 55,288 square foot office warehouse; and several other smaller office warehouse facilities. The Four Seasons Business Park includes 4 buildings, totaling approximately 50,750 square feet. The Cutten Business Park includes 6 buildings totaling approximately 32,600 square feet owned by Robco Cutten LLC, an approximately 6,000 square foot building owned by Pillar Investment Group LLC and an approximately 6,000 square foot building owned by Polyguard Products, Inc. Two warehouse buildings totaling approximately 36,000 square feet are located on Cutten Road. Thomasville Properties LLC owns a 10,090 square foot building. The Willowbrook – Cutten Industrial Park consists of 13 buildings, totaling 342,956 square feet. Approximately 2 of the 176 acres do not have taxable improvements constructed yet.

There are also 29 acres that are being used for a church, which property is exempt from property taxes.

There are approximately 13 developable acres that are not yet served by utilities. There are approximately 30 acres that are used for plant sites, streets and easements. Approximately 5 acres are used for a recreational center and a park. See “THE DISTRICT” and “STATUS OF DEVELOPMENT IN THE DISTRICT.”

*Payment Record*..... The District has previously issued three series of waterworks and sewer system combination unlimited tax and revenue bonds, six series of unlimited tax bonds and three series of unlimited tax refunding bonds, of which a total of \$12,000,000 in principal amount is outstanding as of the date hereof (the “Outstanding Bonds”). The District was delinquent on the payment of a principal payment of its Unlimited Tax Bonds, Series 2006, due on April 1, 2015, due to an administrative error. The payment was made on July 2, 2015, including the additional interest on the unpaid amount.

## THE BONDS

*The Issuer*..... Northwest Harris County Municipal Utility District No. 6 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

*The Issue*..... Northwest Harris County Municipal Utility District No. 6 \$3,515,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) dated January 1, 2020. The Bonds mature serially on April 1 in each year from 2021 through 2036, inclusive, in the respective amounts and bear interest at the rates for each maturity shown on the cover page. Interest on the Bonds accrues from January 1, 2020 and will be payable on April 1 and October 1 of each year commencing on April 1, 2020 (three months interest) until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

*Redemption* ..... Bonds maturing on April 1, 2026 and thereafter are subject to redemption, in whole or, from time to time in part, at the option of the District, prior to their maturity date, on April 1, 2025 or any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of 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 (or while the Bonds are in Book-Entry-Only form, by DTC in accordance with its procedures). See “THE BONDS—Redemption Provisions.”

*Book-Entry-Only System* ..... 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”.

*Use of Proceeds* ..... Proceeds from the sale of the Bonds, together with legally available funds of the District, will be used to refund and defease \$3,420,000 principal amount of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

*Authority for Issuance*..... The Bonds are the fourth series of bonds issued out of an aggregate of \$10,000,000 principal amount of unlimited tax refunding bonds authorized by the District’s voters on March 20, 1993. After issuance of the Bonds, the District will have \$6,624,101.75 in authorized but unissued unlimited tax refunding bonds.

*Source of Payment* ..... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District as described herein. The Bonds are obligations of the District and are not obligations of Harris County, the City of Houston, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”

*Municipal Bond Insurance  
and Municipal*

*Bond Rating* .....It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign a municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer"). S&P has also assigned an underlying rating of "A" to the Bonds. An explanation of the ratings may be obtained from S&P. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

*Qualified Tax-Exempt*

*Obligations*.....In the Bond Order, the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See "TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."

*Bond Counsel* .....Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas.

*Financial Advisor*.....Masterson Advisors LLC, Houston, Texas.

*Underwriter's Counsel*.....McCall Parkhurst & Horton, L.L.P., Houston, Texas.

*Verification Agent* .....Public Finance Partners LLC, Minneapolis, Minnesota.

*Paying Agent/Registrar*.....The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

*Escrow Agent* .....The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

*Investment*

*Considerations* .....The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Taxable Assessed Valuation.....	\$316,844,734 (a)
Gross Direct Long-Term Debt Outstanding.....	\$12,095,000 (b)
Estimated Overlapping Debt .....	<u>17,788,624 (c)</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt .....	\$29,883,624
Ratio of Gross Direct Long-Term Debt to 2019 Taxable Assessed Valuation.....	3.82%
Ratio of Gross Direct Long-Term Debt and Overlapping Debt to 2019 Taxable Assessed Valuation.....	9.43%
Debt Service Fund Balance as of November 11, 2019 .....	\$1,175,447 (d)
Operating Fund Balance as of November 11, 2019.....	\$2,897,402
Construction Fund Balance as of November 11, 2019 .....	\$3,327,072 (e)
2019 Debt Service Tax Rate .....	\$0.233
2019 Maintenance Tax Rate.....	<u>0.150</u>
2019 Total Tax Rate .....	\$0.383
Average Annual Debt Service Requirement (2020-2040) .....	\$769,413 (b,f)
Maximum Annual Debt Service Requirement (2021) .....	\$934,163 (b,f)
Tax Rate Required to Pay Average Annual Debt Service (2020-2040) at a 95% Collection Rate Based upon 2019 Taxable Assessed Valuation .....	\$0.26 /\$100 A.V.
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate Based upon 2019 Taxable Assessed Valuation.....	\$0.32 /\$100 A.V.
Water and Sewer Connections as of September 17, 2019 (g):	
Completed Homes – Occupied .....	625
Completed Homes – Vacant .....	6
Commercial Connections .....	80
Estimated 2019 Population.....	2,188 (h)

(a) The Harris County Appraisal District (the “Appraisal District”) has certified \$307,958,825 of taxable value and an additional \$8,885,909 of taxable value remains uncertified. The uncertified value is the landowners’ opinion of the value; however such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See “TAXING PROCEDURES.”

(b) After issuance of the Bonds.

(c) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”

(d) Unaudited. The District is not required to maintain a particular fund balance. In addition to the balance shown, accrued interest on the Bonds from their dated date to the date of delivery will be deposited in the Debt Service Fund and \$45,000 from the Debt Service Fund will be applied to refund the Refunded Bonds.

(e) Approximately \$2,240,995 of such fund balance is proceeds from the Unlimited Tax Park Bond, Series 2019 which are designated for specific park projects.

(f) See “DEBT SERVICE REQUIREMENTS.”

(g) See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

(h) Based upon 3.5 persons per occupied residence.

## OFFICIAL STATEMENT

**\$3,515,000**

### **NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6**

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

#### **UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Northwest Harris County Municipal Utility District No. 6 (the “District”) of its \$3,515,000 Unlimited Tax Refunding Bonds, Series 2020 (herein defined as the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”) and an election held on March 20, 1993. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt.”

This OFFICIAL STATEMENT includes descriptions of, among other things, the Bonds and the Bond Order, and certain other information about the District and the developers in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas, 77019 (“Bond Counsel”) upon payment of the costs of duplication thereof.

#### **PLAN OF FINANCING**

##### **Purpose**

The District currently has \$12,000,000 principal amount of its bonds outstanding (the “Outstanding Bonds”). The proceeds of the Bonds, together with legally available funds of the District, will be used to refund and defease portions of the and Unlimited Tax Bonds, Series 2011, totaling \$3,420,000 principal amount ( the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds.” A total of \$8,580,000 principal amount of the District’s Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Outstanding Bonds” and “—Sources and Uses of Funds” below.

##### **Outstanding Bonds**

The following table lists the original principal amount, the currently outstanding principal amount, the principal amount of the Refunded Bonds and the principal amount of Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
Unlimited Tax Bonds, Series 2007 (Parks)	\$ 1,400,000	\$ 375,000	\$ -	\$ 375,000
Unlimited Tax Bonds, Series 2011	3,840,000	3,700,000	3,420,000	280,000
Unlimited Tax Refunding Bonds, Series 2015	3,150,000	2,505,000	-	2,505,000
Unlimited Tax Bonds, Series 2017	1,940,000	1,710,000	-	1,710,000
Unlimited Tax Park Bonds, Series 2019	2,590,000	2,590,000	-	2,590,000
Unlimited Tax Refunding Bonds, Series 2019A	1,120,000	1,120,000	-	1,120,000
Total	\$ 14,040,000	\$ 12,000,000	\$ 3,420,000	\$ 8,580,000
The Bonds				3,515,000
The Bonds and Remaining Outstanding Bonds				\$ 12,095,000



### **Refunded Bonds**

Proceeds of the Bonds, together with other lawfully available funds of the District, will be applied to refund and defease \$3,420,000 principal amount of the Refunded Bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below:

Maturity Date	Series
<u>April 1</u>	<u>2011</u>
2024	\$ 70,000
2025	70,000
2026	70,000
2027	70,000
2028	70,000
2029	150,000
2030	210,000
2031	220,000
2032	230,000
2033	515,000
2034	550,000
2035	580,000
2036	615,000
	<u>\$ 3,420,000</u>

Redemption Date: 4/1/2020

### **Escrow Agreement**

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as Escrow Agent for the Refunded Bonds.

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be January 15, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other lawfully available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

### **Defeasance of the Refunded Bonds**

By the deposit of the cash and the Escrowed Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

## **Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

### Sources of Funds:

Principal Amount of the Bonds .....	\$3,515,000.00
Plus: Net Premium on the Bonds.....	71,688.50
Plus: Transfer from Debt Service Fund .....	45,000.00
Total Sources of Funds.....	\$3,631,688.50

### Uses of Funds:

Deposit to Escrow Fund .....	\$3,482,468.92
Issuance Expenses and Underwriters' Discount (a) .....	149,219.58
Total Uses of Funds .....	\$3,631,688.50

(a) Includes municipal bond insurance premium.

## **DEBT SERVICE REQUIREMENTS**

The following table sets forth the actual debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$3,420,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 997,319	\$ 147,650		\$ 74,067	\$ 74,067	\$ 923,736
2021	968,206	147,650	\$ 15,000	98,606	113,606	934,163
2022	829,019	147,650	15,000	98,306	113,306	794,675
2023	824,356	147,650	15,000	98,006	113,006	789,713
2024	827,363	216,250	90,000	96,506	186,506	797,619
2025	829,200	213,450	85,000	93,881	178,881	794,631
2026	825,413	210,650	85,000	91,331	176,331	791,094
2027	820,931	207,763	85,000	88,781	173,781	786,950
2028	825,581	204,788	85,000	86,125	171,125	791,919
2029	827,488	280,113	165,000	83,094	248,094	795,469
2030	833,863	332,463	220,000	78,969	298,969	800,369
2031	833,025	333,325	225,000	73,963	298,963	798,663
2032	841,313	333,763	235,000	68,641	303,641	811,191
2033	797,284	602,609	510,000	58,200	568,200	762,875
2034	810,550	614,313	540,000	42,450	582,450	778,688
2035	817,181	619,594	560,000	25,950	585,950	783,538
2036	822,316	628,453	585,000	8,775	593,775	787,638
2037	711,938	-	-	-	-	711,938
2038	691,563	-	-	-	-	691,563
2039	523,438	-	-	-	-	523,438
2040	507,813	-	-	-	-	507,813
Total	\$ 16,765,156	\$ 5,388,131	\$ 3,515,000	\$ 1,265,652	\$ 4,780,652	\$ 16,157,677

Maximum Annual Debt Service Requirement (2021) .....\$934,163

Average Annual Debt Service Requirement (2020-2040) .....\$769,413

## THE BONDS

### **General**

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board authorizing the issuance and sale of the Bonds. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description of the Bonds**

The Bonds are dated January 1, 2020, and mature on April 1 in each of the years and in the principal amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on April 1 and October 1, commencing April 1, 2020 (three months interest). 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 will 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 so do 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 Order will be given only to DTC.

#### **Registration and Transfer**

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

### **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 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 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 Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

### **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 Order, 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.

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2026, 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 are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part 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.

## **Source of Payment**

The Bonds, when issued, will constitute valid and binding obligations of the District and be 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. In the Bond Order, the District covenants to levy a tax sufficient to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of levy and collection, Paying Agent/Registrar and Appraisal District fees. Tax proceeds, after deduction of collection costs, will be placed in the Debt Service Fund (as defined in the Bond Order) and used solely to pay principal of and interest on the Bonds and 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**

The Bond Order confirms the establishment of the District's Debt Service Fund. 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 Bonds, the Remaining Outstanding 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, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds, and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. Any monies remaining after the deposit into the Escrow Account and payment of issuance costs will be deposited into the Debt Service Fund.

## **Authority for Issuance and Issuance of Additional Debt**

The Bonds are issued pursuant to the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended and City of Houston Ordinance No. 97-416.

The Bonds are the fourth series of bonds issued out of an aggregate of \$10,000,000 principal amount of unlimited tax refunding bonds authorized by the District's voters on March 20, 1993. After issuance of the Bonds, the District will have \$6,624,101.75 in authorized but unissued unlimited tax refunding bonds.

At an election held within the District on November 17, 2017, voters of the District authorized a total of \$16,350,000 principal amount of unlimited bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and also authorized a total of \$3,150,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities. At elections held on April 2, 1977 and September 10, 1982, voters in the District authorized a total of \$6,500,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. At an election held on September 11, 2004, voters in the District authorized a total of \$14,000,000 principal amount of unlimited tax bonds of which \$1,400,000 principal amount was designated for the purpose of acquiring or constructing recreational facilities and \$12,600,000 principal amount was designated for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. A total of \$560,000 in principal amount of unlimited tax bonds remains authorized, but unissued for the purpose of acquiring or constructing recreational facilities; \$2,420,000 in principal amount of waterworks and sewer system combination unlimited tax and revenue bonds remains authorized but unissued for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities; and \$17,500,000 in principal amount of unlimited tax bonds remains authorized but unissued for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The District may issue such 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. 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 Bond Order imposes 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, where applicable). Any additional bonds issued by the District may be on a parity with the Bonds.

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) amendment of the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (iii) approval of the master plan and bonds by the Commission; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City of Houston concerning modifications of its ordinance.

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

### **Financing Recreational Facilities**

Pursuant to provisions of the Texas Constitution, as amended in 2003, conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

Pursuant to the provisions of related statutory amendments, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations adopted by the Commission. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election.

At an election held within the District on September 11, 2004, voters of the District authorized a total of \$1,400,000 principal amount of unlimited tax bonds for parks and recreational facilities. The District issued its Series 2007 Unlimited Tax Bonds in the principal amount of \$1,400,000 for the purpose of constructing parks and recreational facilities.

At an election held within the District on November 7, 2017, voters of the District authorized a total of \$3,150,000 principal amount of unlimited tax bonds for parks and recreational facilities. The District issued its Series 2019 Unlimited Tax Bonds in the principal amount of \$2,590,000 for parks and recreational facilities and \$560,000 principal amount of unlimited tax bonds for parks and recreational facilities remains authorized by unissued. Voters may authorize additional bonds for constructing recreational facilities in the future.

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

### **Financing Road Facilities**

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" nor calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

### **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished 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 and Consolidation**

The District is located wholly within the extraterritorial jurisdiction ("ETJ") of the City of Houston, Texas (the "City"). The City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "Strategic Partnership Agreement," below, for a description of the terms of the Strategic Partnership Agreement between the City and the District. If the City were to annex the District, the District would be abolished within ninety (90) days after annexation. If the District was annexed and abolished, the City would assume the assets, functions and obligations of the District (including the Bonds). No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments on the Bonds should annexation occur. 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 attempt to annex the District and assume its debt.

The District has the legal authority and right to consolidate with other municipal utility districts and in connection therewith to provide for the consolidation of its assets, such as cash and its utility system, with the waterworks and sewer systems of the district(s) with which it is consolidating, as well as its liabilities, including the Bonds. The District has no current plans to exercise its right of consolidation. No representation is made concerning the ability of the consolidated district to make debt service payments on the Bonds and other outstanding obligations of the consolidated district should consolidation occur.

### **Strategic Partnership Agreement**

The District and the City have entered into a Strategic Partnership Agreement (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code, effective May 8, 2012. The SPA provided for the "limited purpose annexation" for that portion of the District which has been or is expected to be developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City would not annex the District for "full purposes" for at least thirty (30) years.

In addition, upon the effective date of the SPA, the City was authorized to impose a one percent (1%) City sales and use tax within the retail and commercial portion of the District included in the limited purpose annexation. The City is obligated to pay to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

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

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

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



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

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

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

### **Amendments**

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, 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 Order 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 Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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 governmental agency and a political subdivision of the State of Texas which was created by the Texas Water Rights Commission, predecessor to the Commission by order effective October 21, 1975. The District operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 417 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, 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 and roads.

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 and of additional State of Texas agencies. See "THE SYSTEM—Regulation."

## **Description and Location**

The District is located in northwest Harris County, approximately 15 miles northwest of downtown Houston. Access to the District is provided by the Sam Houston Tollway and State Highway 249. The District is one mile south of FM 1960 and one mile west of Champion Forest Drive. The District is located entirely within the extraterritorial jurisdiction of the City.

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

### **Residential Development**

The District has been developed as a mixed-use project. Approximately 164 acres have been developed into 634 single family lots in Cutten Green, Sections 1 and 2. As of September 17, 2019, there were 625 completed and occupied homes and 6 completed and unoccupied homes. The average home value in the District according to the Harris County Appraisal District is \$184,455.

### **Other Development**

In addition to the single family residential development, approximately 176 acres of land have been developed for commercial and office/warehouse purposes. The commercial development includes an approximately 260,000 square foot warehouse owned by Houston Distributing Company, a beverage distributor; an office warehouse owned by BMCW South which provides building materials; a 55,288 square foot office warehouse; and several other smaller office warehouse facilities. The Four Seasons Business Park includes 4 buildings, totaling approximately 50,750 square feet. The Cutten Business Park includes 6 buildings totaling approximately 32,600 square feet owned by Robco Cutten LLC, an approximately 6,000 square foot building owned by Pillar Investment Group LLC and an approximately 6,000 square foot building owned by Polyguard Products, Inc. Two warehouse buildings totaling approximately 36,000 square feet are located on Cutten Road. Thomasville Properties LLC owns a 10,090 square foot building. The Willowbrook – Cutten Industrial Park consists of 13 buildings, totaling 243,956 square feet. Approximately 2 of the 176 acres do not have taxable improvements constructed yet.

There are also 29 acres that are being used for a church, which property is exempt from property taxes.

### **Undeveloped Acreage**

There are approximately 13 developable acres that are not yet served by utilities. There are approximately 30 acres that are used for plant sites, streets and easements.

### **Parks and Recreational Acreage**

A recreational center has been constructed on approximately 3 acres and there are approximately 2 acres on which a park has been constructed with proceeds from the Outstanding Bonds. The District has also constructed a system of pathways on existing drainage and utility easements. The District has acquired an approximately 4 acre site that the District intends to develop as a park using the proceeds of the District's Unlimited Tax Park Bonds, Series 2019.

## **MANAGEMENT OF THE DISTRICT**

### **Directors and Officers**

The District is governed by the Board, consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms, and elections are held in May in even numbered years only. All of the directors either reside or own land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Harris	President	May 2020
Eric L. Fox	Vice President/Assistant Secretary	May 2020
Bob Parliament	Secretary	May 2022
Dennis Klimek	Director	May 2022
Dennis Jasek	Director	May 2022

The District does not have a general manager or other employees, but the District contracts for certain necessary services as described below

### **Tax Appraiser**

The Harris County Appraisal District has the responsibility of appraising taxable property within Harris County, Texas, including property within the District. See "TAXING PROCEDURES."

### **Tax Assessor/Collector**

Land, improvements and other taxable property in the District are appraised for taxation by the Harris County Appraisal District. The District contracts with Bob Leared Interests to act as Tax Assessor/Collector for the District.

### **Engineer**

The District's consulting engineer is Edminster, Hinshaw, Russ and Associates, Inc. (the "Engineer").

### **Bookkeeper**

The District has contracted with Myrtle Cruz, Inc. for bookkeeping services.

### **Utility System Operator**

The District contracts with M. Marlon Ivy & Associates, Inc. ("MMA") for maintenance and operation of the District's system.

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's audited financial statements for the year ended May 31, 2019, were prepared by Mark C. Eyring, CPA, PLLC. See "APPENDIX A" for a copy of the District's May 31, 2019, audited financial statements.

### **Financial Advisor**

Masterson Advisors LLC (the "Financial Advisor") serves as the District's Financial Advisor. The fee for services rendered by Masterson Advisors LLC in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

### **Bond Counsel/Attorney**

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel to the District and as Bond Counsel in connection with the issuance of the Bonds.

## **THE SYSTEM**

### **Regulation**

According to the Engineer, 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, 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 the District's Engineer.

## **Water Supply**

The District's water supply system includes one water plant that has a 1,400 gallon-per-minute ("gpm") well, booster pump capacity of 1,850 gpm, 420,000 gallons of ground storage tank capacity, and 27,290 gallons of hydropneumatic tank capacity. The District is receiving surface water from the North Harris County Regional Water Authority (the "Authority"), which provides adequate capacity for normal demand. The District's water supply system is used for peak demand.

The District has an emergency interconnect agreement with Harris County Municipal Utility District No. 202 ("MUD 202").

According to the District's Engineer, the District's existing water supply facilities are sufficient to serve 1,028 equivalent single family connections (ESFCs). The District is currently serving 877 ESFCs.

## **Subsidence District Requirements**

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 1999, the Texas legislature created the Authority to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP.

The Authority, among other powers, has the power to (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, and charges as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a rate per 1,000 gallons of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

## **Wastewater Treatment System**

The District is a co-owner in a wastewater treatment plant located in MUD 202. Of the total 725,000 gallons per day capacity of such plant, the District owns 350,000 gallons per day of capacity, and MUD 202 owns 375,000 gallons per day of capacity. According to the District's engineer, 350,000 gpd is sufficient to serve 1,166 equivalent single family connections and the ultimate build out of the District. The District is currently serving 873 ESFCs.

## **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 commercial development described under the section "STATUS OF DEVELOPMENT IN THE DISTRICT."

### **Flood Protection**

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, no areas in the District are located within the 100-year flood plain. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

Approximately 110 acres of developed property within the District is currently located in the 100-year flood plain map as depicted by the effective Federal Emergency Management Agency ("FEMA") floodplain maps dated June 18, 2007. Approximately 60 acres located in the 100-year floodplain have been developed for commercial and office/warehouse purposes, of which approximately 29 acres do not yet have above ground improvements. Undeveloped areas will not be removed from the flood plain as they are developed; however, the elevation of the finished slabs will be constructed above the 100-year flood plain. Approximately 50 acres which are located in the 100-year floodplain are residential properties.

## WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

### 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.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General 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. Reference is made to such records and statements for further and more complete information.

	Fiscal Year Ended May 31,				
	2019	2018	2017	2016	2015
<b>REVENUES:</b>					
Property Taxes	\$ 448,220	\$ 435,231	\$ 451,741	\$ 415,818	\$ 411,630
Water Service	197,594	209,641	211,959	220,201	213,740
Sewer Service	289,468	252,106	192,240	199,053	194,715
Surface Water Fees	280,311	262,996	229,699	204,005	189,937
Penalty and Interest	27,112	21,837	16,553	21,543	16,336
Tap Connection & Inspection Fees	56,900	48,836	9,677	-	9,022
Sales & Use Taxes	294,903	261,634	494,270	599,909	297,960
Interest on surface water chloramine costs	16,706	17,056	17,385	17,695	17,987
Interest on prepaid water capital contribution	13,649	14,145	14,618	15,068	15,497
Interest on deposits	32,053	15,556	5,504	7,932	8,576
<b>TOTAL REVENUES</b>	<b>\$ 1,656,916</b>	<b>\$ 1,539,038</b>	<b>\$ 1,643,646</b>	<b>\$ 1,701,224</b>	<b>\$ 1,375,400</b>
<b>EXPENDITURES:</b>					
Purchased Sewer Services	\$ 164,304	\$ 179,735	\$ 157,943	\$ 138,629	\$ 149,572
Professional Fees	138,996	176,759	161,864	164,013	116,711
Contracted Services	66,167	59,051	57,042	53,688	54,305
Utilities	51,008	59,350	60,425	59,934	54,974
Surface Water Fees	300,499	284,339	266,388	223,757	197,753
Repairs and Maintenance	228,956	249,932	240,005	263,200	260,157
Fire Protection	50,400	46,200	50,400	50,400	50,400
Recycling	-	-	21,443	21,392	21,409
Garbage	107,011	73,350	-	-	-
Administrative	97,362	77,060	70,917	66,508	69,236
Capital Outlay	38,177	34,338	302,969	1,339,735	154,711
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,242,880</b>	<b>\$ 1,240,114</b>	<b>\$ 1,389,396</b>	<b>\$ 2,381,256</b>	<b>\$ 1,129,228</b>
<b>NET REVENUES</b>	<b>\$ 414,036</b>	<b>\$ 298,924</b>	<b>\$ 254,250</b>	<b>\$ (680,032)</b>	<b>\$ 246,172</b>
<b>FUND BALANCE, BEGINNING OF PERIOD</b>	<b>\$ 3,249,738</b>	<b>\$ 2,641,023</b>	<b>\$ 2,305,151</b>	<b>\$ 2,985,183</b>	<b>\$ 2,739,011</b>
<b>OTHER SOURCES OF FUNDS</b>					
Reimbursement From Other Fund	\$ 24,212	\$ 309,791	\$ 81,622	\$ -	\$ -
<b>FUND BALANCE, END OF PERIOD</b>	<b>\$ 3,687,986</b>	<b>\$ 3,249,738</b>	<b>\$ 2,641,023</b>	<b>\$ 2,305,151</b>	<b>\$ 2,985,183</b>

## FINANCIAL STATEMENT

2019 Taxable Assessed Valuation .....	\$316,844,734 (a)
District Debt	
Outstanding Bonds (as of November 1, 2019) .....	\$12,000,000
Less: the Refunded Bonds .....	3,420,000
Plus: the Bonds .....	<u>3,515,000</u>
Gross Debt Outstanding .....	\$12,095,000
Estimated Overlapping Debt .....	<u>\$17,788,624</u>
Gross Direct Long-Term Debt and Estimated Overlapping Debt .....	\$29,883,624
Ratio of Gross Debt to 2019 Taxable Assessed Valuation .....	3.82%
Ratio of Gross Debt and Overlapping Debt to 2019 Taxable Assessed Valuation .....	9.43%

Area of District – 417 Acres  
Estimated 2019 population – 2,188 (b)

- (a) The Harris County Appraisal District (the “Appraisal District”) has certified \$307,958,825 of taxable value and an additional \$8,885,909 of taxable value remains uncertified. The uncertified value is the landowners’ opinion of the value; however such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See “TAXING PROCEDURES.”
- (b) Based upon 3.5 persons per occupied residence.

### **Cash and Investment Balances (unaudited as of November 11, 2019)**

Debt Service Fund Balance as of November 11, 2019 .....	\$1,175,447 (a)
Operating Fund Balance as of November 11, 2019 .....	\$2,897,402
Construction Fund Balance as of November 11, 2019 .....	\$3,327,072 (b)

- (a) Under Texas law, the District is not required to maintain a particular fund balance. The District is not required to maintain a particular fund balance. In addition to the balance shown, accrued interest on the Bonds from their dated date to the date of delivery will be deposited in the Debt Service Fund and \$45,000 from the Debt Service Fund will be applied to refund the Refunded Bonds.
- (b) Approximately \$2,240,995 of such fund balance is proceeds from the Unlimited Tax Park Bond, Series 2019 which are designated for specific park projects.

### **Investment Policies and Procedures**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own or intend to purchase long-term securities or derivative products.

## ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of 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 hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes of these overlapping political subdivisions is not included in these figures. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Outstanding Debt	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,478,697,125	10/31/2019	0.07%	\$ 1,035,088
Harris County Flood Control District.....	83,075,000	10/31/2019	0.07%	58,153
Harris County Department of Education.....	6,320,000	10/31/2019	0.07%	4,424
Harris County Hospital District.....	57,300,000	10/31/2019	0.07%	40,110
Port of Houston Authority.....	572,569,397	10/31/2019	0.07%	400,799
Klein Independent School District.....	1,114,535,000	10/31/2019	1.38%	15,380,583
Lone Star College District.....	579,645,000	10/31/2019	0.15%	869,468
Total Estimated Overlapping Debt.....				\$ 17,788,624
The District's Total Direct Debt (a).....			Current	12,095,000
Total Direct and Estimated Overlapping Debt.....				\$ 29,883,624
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Taxable Assessed Valuation.....				9.43%

(a) Includes the Bonds and the Remaining Outstanding Bonds.



## **Overlapping Taxes for 2019**

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "ESTIMATED OVERLAPPING DEBT STATEMENT" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the tax rates levied within the District for the 2019 tax year by all taxing jurisdictions, including the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy or charges imposed by entities other than political subdivisions.

<u>Overlapping Entity</u>	<u>2019 Tax Rate per \$100 Assessed Valuation</u>
Harris County (a)	\$ 0.616700
Klein ISD	1.360000
Harris County ESD No. 20	0.100000
Harris County ESD No. 11	0.034707
Lone Star College System	0.107800
Total Overlapping Amount	\$ 2.219207
The District	0.383000
Total Tax Rate	\$ 2.602207

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

## **TAX DATA**

### **Debt Service Tax**

The Board will covenant in the Bond Order to levy and collect, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of the District's outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on the Bonds.

### **Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, upon authorization of the District's voters. At a maintenance tax election conducted April 2, 1977, voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$0.15 per \$100 assessed valuation. The maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and the Outstanding Bonds.

### **Tax Rate Distribution**

The following is the distribution of the District's total tax rate between debt service and maintenance taxes for the tax years 2015 through 2019.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.233	\$ 0.233	\$ 0.233	\$ 0.233	\$ 0.240
Maintenance	0.150	0.150	0.150	0.150	0.150
Total	\$ 0.383	\$ 0.383	\$ 0.383	\$ 0.383	\$ 0.390

## **Historical 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 such records for further and more complete information.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of 10/31/2019 (a)	
				Amount	Percent
2014	\$ 252,155,990	\$ 0.390	\$ 983,109	\$ 981,545	99.84%
2015	292,118,079	0.390	1,139,261	1,136,523	99.76%
2016	306,599,301	0.383	1,174,275	1,170,854	99.71%
2017	297,295,412	0.383	1,138,641	1,130,287	99.27%
2018	301,641,355	0.383	1,155,286	1,136,667	98.39%
2019	307,958,825	0.383	1,179,482	(a)	(a)

(a) In process of collection.

Taxes are due October 1 (or when billed, if later) and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

## **Tax Roll Information**

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. 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	\$ 62,541,632	\$ 57,807,752	\$ 58,782,982	\$ 47,018,006	\$ 45,393,207
Improvements	194,900,085	173,449,484	162,937,461	166,088,707	157,447,968
Personal Property	86,692,318	101,048,281	102,243,131	131,026,716	128,131,322
Exemptions	(36,175,210)	(28,096,570)	(26,267,951)	(37,541,608)	(38,522,737)
Uncertified Value	8,885,909	-	-	-	-
Total	<u>\$ 316,844,734</u>	<u>\$ 304,208,947</u>	<u>\$ 297,695,623</u>	<u>\$ 306,591,821</u>	<u>\$ 292,449,760</u>

## **Principal Taxpayers**

The following table represents the principal taxpayers for 2019, the type of property, the certified taxable assessed value of such property, and such property's assessed value as a percentage of the District's 2019 Certified Taxable Assessed Valuation of \$307,958,825.

Taxpayer	Type of Property	% of	
		2019 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
BMCW Southcentral LP	Land & Improvements	\$ 22,070,296	6.39%
Houston Distributing Co.	Land, Improvements & Personal Property	19,686,933	7.17%
FPIP TX1 LP	Land & Improvements	14,582,796	4.74%
Carson VA Industrial LP	Land & Improvements	13,881,189	4.51%
Houston CSP I LLC	Land & Improvements	11,893,930	3.86%
BMC West LLC	Personal Property	6,885,664	2.24%
High Life Drive Business	Land & Improvements	6,506,188	2.11%
Transcanada Turbines, Inc.	Personal Property	6,365,573	2.07%
Four Seasons Business Park	Land & Improvements	4,309,317	1.40%
Cutten NW LTD	Land & Improvements	3,720,284	1.21%
Total		<u>\$ 109,902,170</u>	<u>35.69%</u>

## **Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2019 Taxable Assessed Valuation of \$316,844,734 (see "Tax Roll Information" above). The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service.

Average Annual Debt Service Requirement (2020-2040) .....	\$769,413
\$0.26 Tax Rate on 2019 Taxable Assessed Valuation @ 95% collections .....	\$782,606
Maximum Annual Debt Service Requirement (2021) .....	\$934,163
\$0.32 Tax Rate on 2019 Taxable Assessed Valuation @ 95% collections .....	\$963,208

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Remaining Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. 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"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The District is responsible under current Texas law for the levy and collection of its taxes.

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

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; 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 or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2019 tax year, the District has granted an exemption of \$10,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no

cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, 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.

**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 not granted a general homestead exemption.

**Freeport Goods Exemption and Goods-in-Transit Exemptions:** A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2011 and prior years, and has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2012 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, 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 certain terms for its tax abatement agreements without regard to such 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.

### **Reappraisal of Property**

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. Neither Harris County nor the District adopted an order regarding the reappraisal of property in the District.

### **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 collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180<sup>th</sup>) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and

Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

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

Certain qualified taxpayers, including owners of residential homesteads, located within a 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 Participants if the taxpayer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

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

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 1.08 times the previous year's operation and maintenance tax rate. 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 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 districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate 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, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

#### *Developed Districts*

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

## *Developing Districts*

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

## *The District*

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

## **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 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 homesteads as 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 two (2) years for residential and agricultural property and within six (6) months for commercial 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. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations".

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of Harris County, the City of Houston, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds and the Outstanding 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—Sources 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 costly and lengthy processes. Furthermore, the District cannot and does not make any representations that construction of taxable improvements within the District will continue or that existing taxable improvements and land will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property. See "Registered Owners' Remedies and Bankruptcy Limitations" below.

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

The greater Houston area, including the District, 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. According to M. Marlon Ivy & Associates, Inc., the District's utility system operator, the District's water, sewer and drainage system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial properties within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### **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.

### **Debt Service Delinquency**

The District was delinquent on the payment of a principal payment of its Series 2006 Bonds which was due on April 1, 2015 due to an administrative error. The payment was made on July 2, 2015, including the additional interest on the unpaid amount.

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

A substantial percentage of the taxable value of the District results from the current market value of commercial, industrial properties and single-family residences. The market value of such properties is related to general economic conditions in the Houston region and the national economy. The demand for commercial tracts and 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 15 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 downturn in the economic conditions of Houston and decline in the nation's economic condition 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.



### **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 owners of property within the District to pay their taxes. The 2019 Taxable Assessed Valuation is \$316,844,734. See “SELECTED FINANCIAL INFORMATION”. After issuance of the Bonds, the maximum annual debt service requirement will be \$934,163 (2021), and the average annual debt service will be \$769,413 (2020-2040). Assuming no increase or decrease from the 2019 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.32 and \$0.26 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual and the average annual debt service requirements (see “DEBT SERVICE REQUIREMENTS”), respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2019 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. The District makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. See “TAX DATA—Tax Adequacy for Debt Service.”

### **Dependence on Principal Taxpayers**

The ten principal taxpayers represent \$109,902,170 or approximately 35.69% of the 2019 Certified Taxable Assessed Valuation of \$307,958,825, which represents certified ownership as of January 1, 2019. See “TAX DATA—Principal Taxpayers” and “THE DEVELOPERS”. The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy a higher tax rate or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis.

### **Dependence on Personal Property Tax Collections**

Approximately 28.18% (\$86,692,318) of the 2019 Certified Taxable Assessed Valuation (\$307,958,825) is personal property. See “TAX DATA—Tax Roll Information.” Most other utility districts in Texas are not dependent to such an extent on taxes levied on personal property, and the personal property taxation and collection create special risks for Registered Owners. See “TAX DATA—Principal Taxpayers” and “TAXING PROCEDURES.”

Unlike real property, there is no certainty that personal property will remain in the District from year to year. Automobiles and other personal property are portable, and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year. The amount of personal property on the District tax roll may vary from year to year. See “TAX DATA – Tax Roll Information.”

If personal property is subject to a lien for unpaid District taxes for any year, the District lien is lost if the property is sold in the ordinary course of business. However, a lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property then or thereafter owned by the taxpayer. However, the District may not be able to foreclose on personal property located outside the State of Texas, and locating and foreclosing on property held outside the District may be costly, inefficient and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20 year statute of limitations for real property. Personal property may not be seized and a suit may not be filed to collect delinquent personal property taxes if the tax has been delinquent for more than four years. A tax and any penalty and interest on the tax that is delinquent longer than the limitation periods is presumed paid unless a suit to collect such personal property tax is pending. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. See “TAXING PROCEDURES.”

Heretofore the District has been successful in collecting its ad valorem tax levies including ad valorem taxes levied on personal property located in the District. However, no representation can be made by the District regarding future tax collections. See “TAX DATA—Tax Collections.”

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

There are no commitments from or obligations of the developers 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 Order 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 \$6,500,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purposes of acquiring or constructing water, sanitary sewer and drainage facilities, \$28,950,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, \$4,550,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and \$10,000,000 principal amount of unlimited tax refunding bonds. A total of \$560,000 in principal amount of unlimited tax bonds remains authorized but unissued for the purpose of acquiring or constructing recreational facilities; \$2,420,000 in principal amount of waterworks and sewer system combination unlimited tax and revenue bonds remains authorized but unissued for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities; \$17,500,000 in principal amount of unlimited tax bonds remains authorized but unissued for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. After issuance of the Bonds, \$6,624,101.75 in principal amount of unlimited tax refunding bonds will remain authorized but unissued. 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 and revenue bonds and 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. See “THE BONDS—Authority for Issuance and Issuance of Additional Debt” and “THE DISTRICT—General.”

## **Tax Collection Limitations**

The District's ability to make debt service payments may be adversely affected by an 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 judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “ESTIMATED OVERLAPPING DEBT STATEMENT”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem homestead and agricultural use property within two years of foreclosure and other types of property within six months after foreclosure). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See “TAXING 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 Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order 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 Order 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.

### **Environmental and Air Quality Regulations**

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the "2015 Ozone Standard"). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ 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, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain 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.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal 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 entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer (the “Insurer”) and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance 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 Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “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.

### **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of “A” to the Bonds. An explanation of the rating may be obtained from S&P.

The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings 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 ratings may have an adverse effect on the market price of the Bonds.

## MUNICIPAL BOND INSURANCE

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure), and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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

### *Current Financial Strength Ratings*

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### *Capitalization of AGM*

At September 30, 2019:

- The policyholders' surplus of AGM was approximately \$2,473 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,100 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,829 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019 (filed by AGL with the SEC on November 8, 2019).

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

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

### *Miscellaneous Matters*

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter 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 in 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. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, 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 or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s opinion will also state that, as a result of the deposit of cash with the Paying Agent for the Refunded Bonds pursuant to the Escrow Agreement, firm banking arrangements will have been made for the payment of the Refunded Bonds pursuant to the Escrow Agreement and that, therefore, the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under such Escrow Agreement. Bond Counsel will express no opinion with respect to the sufficiency of the security for or marketability of the Bonds.

## **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 “PLAN OF FINANCING—Refunded Bonds”, “—Deposit Agreement,” “THE BONDS” (except Book-Entry-Only System), “THE DISTRICT—General,” “MANAGEMENT OF THE DISTRICT—Bond Counsel/Attorney,” “TAXING PROCEDURES,” “LEGAL MATTERS—Legal Opinions,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm 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 such firm’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 other information contained herein. 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 Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or to the knowledge of the District’s certifying officers, 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, the corporate existence or boundaries of the District or the title of the present officers and directors of the Board.

## **No Material Adverse Change**

The obligations of the Underwriter 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 is 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”) is 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.

### **Qualified Tax-Exempt Obligations for Financial Institutions**

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the Issuer, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and maturing principal of and interest on the Government Obligations held by the Escrow Agent for the Refunded Bonds in the Escrow Account to provide for the payment of the Refunded Bonds; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the bonds will be excluded from gross income for federal income tax purposes and (c) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416, as amended.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the Issuer. In addition, Public Finance Partners LLC has relied on any information provided to it by the Issuer's retained advisors, consultants or legal counsel.

## **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 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 to such effect 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 employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement 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 Order, District contracts and provisions of state and federal law contained under the captions "THE BONDS (except for "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" and "THE SYSTEM"—Edminster, Hinshaw, Russ and Associates, Inc. and MMA; "SELECTED FINANCIAL INFORMATION," "ESTIMATED OVERLAPPING DEBT STATEMENT" and "TAX DATA"—Harris County Appraisal District, BLICO, and the Municipal Advisory Council of Texas.

The Financial Advisor to the District 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.

*Appraisal District:* The information contained in this OFFICIAL STATEMENT relating to the 2019 Taxable Assessed Valuation has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as an expert in appraising the values 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 District's assessed value particularly the sections entitled "TAX DATA—Historical Tax Collections—Tax Roll Information—Principal Taxpayers" has been provided by Bob Leared Interests and is included herein in reliance upon the authority of such entity as an expert in assessing and collecting taxes.

*Engineer:* The information contained in this Official Statement relating to engineering and to the description of the District's water and sewer system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Edminster, Hinshaw, Russ and Associates, Inc., and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

*Auditor:* The District's audited financial statements for the year ended May 31, 2019, were prepared by Mark C. Eyring, CPA, PLLC and have been included herein as "APPENDIX A." Mark C. Eyring, CPA, PLLC has authorized the use of these financial statements in conjunction with the sale of the Bonds as they appear in "APPENDIX A."

### **Updating the Official Statement**

The District will keep the OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, to the other matters described in the OFFICIAL STATEMENT, until the delivery of the Bonds to the Underwriter, or as otherwise required by law. The District assumes no responsibility for supplementing the OFFICIAL STATEMENT thereafter.

## **Certification of Official Statement**

The District, acting through its Board 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 the 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 makes no other representation as to the accuracy or completeness of the information derived from sources other than the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, 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 with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA (except for the subsection entitled Tax Adequacy for Debt Service)," "THE SYSTEM," and "WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT" (most of which information is contained in the District's annual audit report) and in Appendix A. District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

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 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 Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation. The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **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 an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, 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 in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB makes the information available to the public without charge through its EMMA internet portal 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 registered and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. 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 reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12, with the exception of the following: For the years 2012-2016, the continuing disclosure filing omitted the list of the principal taxpayers in the District as required by the continuing disclosure undertaking for the Series 2009 Unlimited Tax Bonds. Upon discovery of the omission, the District amended the 2012-2016 filing to include the omitted information.

## **MISCELLANEOUS**

All estimates, statements and assumptions in this Official Statement and the Appendix 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 Northwest Harris County Municipal Utility District No. 6 as of the date shown on the cover page.

/s/ David Harris  
President, Board of Directors  
Northwest Harris County Municipal  
Utility District No. 6

ATTEST:

/s/ Bob Parliament  
Secretary, Board of Directors  
Northwest Harris County Municipal  
Utility District No. 6

## **APPENDIX A**

### **District Audited Financial Statements for the fiscal year ended May 31, 2019**

The information contained in this appendix includes the Audited Financial Statements of Northwest Harris County Municipal Utility District No. 6 and certain supplemental information for the fiscal year ended May 31, 2019.

NORTHWEST HARRIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 6  
HARRIS COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
MAY 31, 2019

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# Mark C. Eyring, CPA, PLLC

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12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Mark@EyringCPA.com

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September 9, 2019

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Northwest Harris County Municipal  
Utility District No. 6  
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Northwest Harris County Municipal Utility District No. 6, as of and for the year ended May 31, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Northwest Harris County Municipal Utility District No. 6 as of May 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 24 to 43 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in dark ink, appearing to read "M. A. J.", is located at the bottom right of the page.

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Northwest Harris County Municipal Utility District No. 6 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2019.

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

#### *Government-Wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

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

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

### **Financial Analysis of the District as a Whole**

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

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

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

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

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 7,832,894	\$ 5,618,374	\$ 2,214,520
Capital assets	9,258,489	9,409,864	(151,375)
Total assets	<u>17,091,383</u>	<u>15,028,238</u>	<u>2,063,145</u>
Long-term liabilities	11,404,299	9,406,112	1,998,187
Other liabilities	829,935	784,805	45,130
Total liabilities	<u>12,234,234</u>	<u>10,190,917</u>	<u>2,043,317</u>
Net position:			
Invested in capital assets, net of related debt	(2,697,173)	(528,215)	(2,168,958)
Restricted	4,387,742	2,654,230	1,733,512
Unrestricted	3,166,580	2,711,306	455,274
Total net position	<u>\$ 4,857,149</u>	<u>\$ 4,837,321</u>	<u>\$ 19,828</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,172,484	\$ 1,114,627	\$ 57,857
Charges for services	881,740	826,617	55,123
Other revenues	352,436	289,702	62,734
Total revenues	<u>2,406,660</u>	<u>2,230,946</u>	<u>175,714</u>
Expenses:			
Service operations	1,776,642	1,518,470	258,172
Debt service	610,190	549,336	60,854
Total expenses	<u>2,386,832</u>	<u>2,067,806</u>	<u>319,026</u>
Change in net position	19,828	163,140	(143,312)
Net position, beginning of year	<u>4,837,321</u>	<u>4,674,181</u>	<u>163,140</u>
Net position, end of year	<u>\$ 4,857,149</u>	<u>\$ 4,837,321</u>	<u>\$ 19,828</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended May 31, 2019, were \$7,535,942, an increase of \$2,187,099 from the prior year.

The General Fund balance increased by \$438,248, as the reimbursement of \$24,212 from the Capital Projects Fund and operating revenues exceeded expenditures.

The Debt Service Fund balance decreased by \$221,654, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$1,970,505, as proceeds from the Series 2019 bonds and interest earnings exceeded authorized expenditures and the reimbursement of \$24,212 to the General Fund.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of May 31, 2019, was expected to be \$3,471,998 and the actual end of year fund balance was \$3,687,986.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land and detention ponds	\$ 3,043,581	\$ 3,043,581	\$ 0
Parks and recreational improvements	1,775,734	1,775,734	0
Construction in progress	55,201	0	55,201
Machinery and equipment	64,429	71,253	(6,824)
Water facilities	1,187,486	1,251,345	(63,859)
Sewer facilities	3,132,058	3,267,951	(135,893)
Totals	<u>\$ 9,258,489</u>	<u>\$ 9,409,864</u>	<u>\$ (151,375)</u>

Changes to capital assets during the fiscal year ended May 31, 2019, are summarized as follows:

Additions:		
Water system improvements		\$ 9,727
Park improvements		55,201
Total additions to capital assets		<u>64,928</u>
Decreases:		
Depreciation		<u>(216,303)</u>
Net change to capital assets		<u>\$ (151,375)</u>

#### *Debt*

On July 24, 2019, the District issued its \$1,120,000 Series 2019A Unlimited Tax Refunding Bonds to refund \$1,030,000 of its Series 2009 bonds on July 25, 2019.

Changes in the bonded debt position of the District during the fiscal year ended May 31, 2019, are summarized as follows:

Bonded debt payable, beginning of year	\$ 9,890,000
Bonds sold	2,590,000
Bonds paid	<u>(545,000)</u>
Bonded debt payable, end of year	<u>\$ 11,935,000</u>

At May 31, 2019, the District had \$19,920,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A by Standard and Poor's. The Series 2007 bonds are insured by Ambac Assurance Corporation, the Series 2011 bonds are insured by Assured Guaranty Municipal Corp and the Series 2015, 2017 and 2019 bonds are insured by Build America Assurance Company. The Series 2009 bonds are not insured. The District's Series 2011, 2015, 2017 and 2019 bonds are rated AA and the other series are rated A by Standard & Poor's. There were no changes in the bond ratings during the fiscal year ended May 31, 2019.

## **RELEVANT FACTORS AND WATER SUPPLY ISSUES**

### *Property Tax Base*

The District's tax base increased approximately \$6,420,000 for the 2018 tax year (approximately 2%) primarily due to the increase in average assessed valuations on existing property

### *Relationship to the City of Houston*

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

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of May 8, 2012. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services (primarily police). Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

### *Water Supply Issues*

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

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. As described below, the District has elected this financing option for the second issue of NHCRWA bonds. The District has not elected this financing option for the first and third issues of NHCRWA bonds. As a result, for the first and third issues of NHCRWA bonds, the District has elected to pay its share in the NHCRWA System costs over time through payment of annually levied pumpage fees to the NHCRWA. The District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At May 31, 2019 the pumpage fee was \$3.85 and is expected to increase in the future. At May 31, 2019, the Authority's surface water usage fee was \$4.30 and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

On February 21, 2005, the District and the Authority entered into a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed funds to the Authority to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the contract, the District will receive credits annually for the for the next 30 years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution.



NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

MAY 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 7	\$1,132,821	\$ 193,813	\$2,520,360	\$ 3,846,994	\$	\$ 3,846,994
Certificates of deposit, at cost, Note 7	1,178,712	924,523		2,103,235		2,103,235
Temporary investments, at cost, Note 7	770,942	323,974		1,094,916		1,094,916
Receivables:						
Property taxes	21,708	33,908		55,616		55,616
Accrued penalty and interest on property taxes				0	34,978	34,978
Service accounts	62,006			62,006		62,006
Sales and Use Taxes, Note 12	45,406			45,406		45,406
Accrued interest	9,165	3,322		12,487		12,487
Other	2,050			2,050		2,050
Due from other funds	81,189	3,608		84,797	(84,797)	0
Prepaid surface water capital contribution, Note 9	272,076			272,076		272,076
Chloramine costs due from regional authority, Note 9	271,038			271,038		271,038
Operating reserve at joint plant, Note 10	32,092			32,092		32,092
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	4,874,516	4,874,516
Depreciable capital assets				0	4,383,973	4,383,973
<b>Total assets</b>	<b><u>\$3,879,205</u></b>	<b><u>\$1,483,148</u></b>	<b><u>\$2,520,360</u></b>	<b><u>\$ 7,882,713</u></b>	<b><u>9,208,670</u></b>	<b><u>17,091,383</u></b>
<b>LIABILITIES</b>						
Accounts payable	\$ 117,419	\$ 16,370	\$ 24,085	\$ 157,874		157,874
Accrued interest payable				0	72,214	72,214
Customer deposits	48,484			48,484		48,484
Due to other funds	3,608		81,189	84,797	(84,797)	0
Long-term liabilities, Note 5:						
Due within one year				0	551,363	551,363
Due in more than one year				0	11,404,299	11,404,299
<b>Total liabilities</b>	<b><u>169,511</u></b>	<b><u>16,370</u></b>	<b><u>105,274</u></b>	<b><u>291,155</u></b>	<b><u>11,943,079</u></b>	<b><u>12,234,234</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property tax revenues	<u>21,708</u>	<u>33,908</u>	<u>0</u>	<u>55,616</u>	<u>(55,616)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>						
Fund balances:						
Nonspendable:						
Prepaid surface water capital contribution, Note 9	272,076			272,076	(272,076)	0
Due from regional authority, Note 9	271,038			271,038	(271,038)	0
Operating reserve at regional facilities, Note 10	32,092			32,092	(32,092)	0
Assigned to:						
Debt service		1,432,870		1,432,870	(1,432,870)	0
Capital projects			2,415,086	2,415,086	(2,415,086)	0
Unassigned	<u>3,112,780</u>			<u>3,112,780</u>	<u>(3,112,780)</u>	<u>0</u>
<b>Total fund balances</b>	<b><u>3,687,986</u></b>	<b><u>1,432,870</u></b>	<b><u>2,415,086</u></b>	<b><u>7,535,942</u></b>	<b><u>(7,535,942)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$3,879,205</u></b>	<b><u>\$1,483,148</u></b>	<b><u>\$2,520,360</u></b>	<b><u>\$ 7,882,713</u></b>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(2,697,173)	(2,697,173)
Restricted for debt service					1,429,542	1,429,542
Restricted for capital projects					2,415,086	2,415,086
Restricted for receivables from regional authority					543,114	543,114
Unrestricted					<u>3,166,580</u>	<u>3,166,580</u>
<b>Total net position</b>					<b><u>\$ 4,857,149</u></b>	<b><u>\$ 4,857,149</u></b>

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

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED MAY 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Property taxes	\$ 448,220	\$ 696,347	\$	\$ 1,144,567	\$ 1,695	\$ 1,146,262
Water service	197,594			197,594		197,594
Sewer service	289,468			289,468		289,468
Surface water fees, Note 9	280,311			280,311		280,311
Penalty, interest and other revenues	27,112	17,446		44,558	8,776	53,334
Tap connection and inspection fees	56,900			56,900		56,900
Sales and Use Taxes, Note 12	294,903			294,903		294,903
Interest on surface water chloramine costs, Note 9	16,706			16,706		16,706
Interest on prepaid surface water capital contribution, Note 9	13,649			13,649		13,649
Accrued interest on bonds received at date of sale		1,545		1,545	(1,545)	0
Interest on deposits and investments	32,053	24,915	565	57,533		57,533
Total revenues	1,656,916	740,253	565	2,397,734	8,926	2,406,660
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Purchased sewer services, Note 10	164,304			164,304		164,304
Professional fees	138,996	6,537		145,533		145,533
Contracted services	66,167	19,811		85,978		85,978
Utilities	51,008			51,008		51,008
Surface water fees, Note 9	300,499			300,499		300,499
Repairs, maintenance and other operating expenditures	228,956			228,956		228,956
Fire protection, Note 11	50,400			50,400		50,400
Garbage	107,011			107,011		107,011
Administrative expenditures	97,362	6,431		103,793		103,793
Depreciation				0	216,303	216,303
Capital outlay / non-capital outlay	38,177		349,608	387,785	(64,928)	322,857
Debt service:						
Principal retirement		545,000		545,000	(545,000)	0
Bond issue expenditures			205,790	205,790		205,790
Interest and fees		384,128		384,128	20,272	404,400
Total expenditures / expenses	1,242,880	961,907	555,398	2,760,185	(373,353)	2,386,832
Excess (deficiency) of revenues over expenditures	414,036	(221,654)	(554,833)	(362,451)	382,279	19,828
<b>OTHER FINANCING SOURCES (USES)</b>						
Bonds issued, Note 5		40,450	2,549,550	2,590,000	(2,590,000)	0
Bond issuance discount, Note 5		(40,450)		(40,450)	40,450	0
Reimbursement to (from) other fund, Note 7	24,212		(24,212)	0	0	0
Total other financing sources (uses)	24,212	0	2,525,338	2,549,550	(2,549,550)	0
Net change in fund balances / net position	438,248	(221,654)	1,970,505	2,187,099	(2,167,271)	19,828
Beginning of year	3,249,738	1,654,524	444,581	5,348,843	(511,522)	4,837,321
End of year	\$ 3,687,986	\$ 1,432,870	\$ 2,415,086	\$ 7,535,942	\$ (2,678,793)	\$ 4,857,149

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

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6NOTES TO THE FINANCIAL STATEMENTSMAY 31, 2019

## NOTE 1: REPORTING ENTITY

Northwest Harris County Municipal Utility District No. 6 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective October 21, 1975, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on November 13, 1975, and the first bonds were sold on October 27, 1977. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District also has the authority to provide for solid waste disposal services and parks and recreational facilities. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

#### Basic Financial Statements

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

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

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

### Interfund Activity

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

### Receivables

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

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

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

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

Plant and equipment	10-45 years
Underground lines	45 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Regional Water Authority Credits

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

Long-term Liabilities

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

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

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

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 7,535,942
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		9,258,489
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (11,935,000)	
Deferred charge on refunding (to be amortized as interest expense)	36,496	
Issuance premium net of discount (to be amortized as interest expense)	<u>(57,158)</u>	(11,955,662)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	34,978	
Uncollected property taxes	<u>55,616</u>	90,594
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(72,214)</u>
Net position, end of year		<u>\$ 4,857,149</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Total net change in fund balances		\$ 2,187,099
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Capital outlay	\$ 64,928	
Depreciation	<u>(216,303)</u>	(151,375)
The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:		
Bonds issued	(2,590,000)	
Principal reduction	<u>545,000</u>	(2,045,000)
The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:		
Refunding charges	(6,841)	
Issuance discount, net of premium	<u>34,258</u>	27,417
Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:		
Accrued penalty and interest on property taxes receivable	8,776	
Uncollected property taxes	<u>1,695</u>	10,471
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:		
Accrued interest		<u>(8,784)</u>
Change in net position		<u>\$ 19,828</u>

#### NOTE 4: CAPITAL ASSETS

At May 31, 2019, "Invested in capital assets, net of related debt" was \$(2,697,173). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended May 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and detention ponds	\$ 3,043,581	\$	\$	\$ 3,043,581
Construction in progress		55,201		55,201
Parks and recreational facilities	<u>1,775,734</u>			<u>1,775,734</u>
Total capital assets not being depreciated	<u>4,819,315</u>	<u>55,201</u>	<u>0</u>	<u>4,874,516</u>
Depreciable capital assets:				
Machinery and equipment	136,467			136,467
Water system	3,015,376	9,727		3,025,103
Sewer system	<u>5,029,307</u>			<u>5,029,307</u>
Total depreciable capital assets	<u>8,181,150</u>	<u>9,727</u>	<u>0</u>	<u>8,190,877</u>
Less accumulated depreciation for:				
Machinery and equipment	(65,214)	(6,824)		(72,038)
Water system	(1,764,031)	(73,586)		(1,837,617)
Sewer system	<u>(1,761,356)</u>	<u>(135,893)</u>		<u>(1,897,249)</u>
Total accumulated depreciation	<u>(3,590,601)</u>	<u>(216,303)</u>	<u>0</u>	<u>(3,806,904)</u>
Total depreciable capital assets, net	<u>4,590,549</u>	<u>(206,576)</u>	<u>0</u>	<u>4,383,973</u>
Total capital assets, net	<u>\$ 9,409,864</u>	<u>\$ (151,375)</u>	<u>\$ 0</u>	<u>\$ 9,258,489</u>
Changes to capital assets:				
Capital outlay		\$ 64,928	\$	
Less depreciation expense for the fiscal year		<u>(216,303)</u>		
Net increases / decreases to capital assets		<u>\$ (151,375)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

On July 24, 2019, the District issued its \$1,120,000 Series 2019A Unlimited Tax Refunding Bonds to refund \$1,030,000 of its Series 2009 bonds on July 25, 2019.

Long-term liability activity for the fiscal year ended May 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 9,890,000	\$ 2,590,000	\$ 545,000	\$ 11,935,000	\$ 555,000
Deferred amounts:					
For issuance (discounts) premiums	91,416	(40,450)	(6,192)	57,158	2,895
For refunding charges	<u>(43,337)</u>		<u>(6,841)</u>	<u>(36,496)</u>	<u>(6,532)</u>
Total bonds payable	<u>9,938,079</u>	<u>2,549,550</u>	<u>531,967</u>	<u>11,955,662</u>	<u>551,363</u>
Total long-term liabilities	<u>\$ 9,938,079</u>	<u>\$ 2,549,550</u>	<u>\$ 531,967</u>	<u>\$ 11,955,662</u>	<u>\$ 551,363</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of May 31, 2019, the debt service requirements on the bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 555,000	\$ 439,407	\$ 994,407
2021	560,000	430,026	990,026
2022	435,000	415,014	850,014
2023	445,000	401,952	846,952
2024	460,000	385,971	845,971
2025 - 2029	2,450,000	1,652,419	4,102,419
2030 - 2034	3,295,000	1,069,724	4,364,724
2035 - 2039	3,235,000	389,488	3,624,488
2040	500,000	15,625	515,625
	<u>\$ 11,935,000</u>	<u>\$ 5,199,626</u>	<u>\$ 17,134,626</u>

Bonds voted	\$ 36,850,000
Bonds approved for sale and sold	16,930,000
Bonds voted and not issued	19,920,000

Recreational facility bonds voted	3,150,000
Recreational facility bonds approved for sale and sold	2,590,000
Recreational facility bonds voted and not issued	560,000

Refunding bonds voted	10,000,000.00
Refunding bonds sold	3,383,688.76
Refunding bonds voted and not issued	6,616,311.24

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

The bond issues payable at May 31, 2019, were as follows:

	<u>Series 2007</u>	<u>Series 2009</u>	<u>Series 2011</u>
Amounts outstanding, May 31, 2019	\$400,000	\$1,030,000	\$3,700,000
Interest rates	4.00% to 4.15%	5.05%	3.375% to 5.00%
Maturity dates, serially beginning/ending	October 1, 2019/2029	April 1, 2029/2032	April 1, 2020/2036
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	October 1, 2016*	April 1, 2019*	April 1, 2020*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2015</u>	<u>Series 2017</u>	<u>Series 2019</u>
Amounts outstanding, May 31, 2019	\$2,505,000	\$1,710,000	\$2,590,000
Interest rates	3.00% to 4.00%	2.00% to 3.25%	3.00% to 3.125%
Maturity dates, serially beginning/ending	April 1, 2020/2028	April 1, 2020/2038	April 1, 2022/2040
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	April 1, 2022*	April 1, 2024*	April 1, 2025*

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

Developer Construction Commitments and Liabilities

At May 31, 2019, there were no developer construction commitments or liabilities.

NOTE 6: PROPERTY TAXES

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

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

At an election held April 2, 1977, the voters within the District authorized a maintenance tax not to exceed \$0.15 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On October 8, 2018, the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$304,092,502:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.2330	\$ 708,536
Maintenance	<u>0.1500</u>	<u>456,139</u>
	<u>\$ 0.3830</u>	<u>\$ 1,164,675</u>

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

2018 tax year total property tax levy	\$ 1,164,675
Appraisal district adjustments to prior year taxes	<u>(18,413)</u>
Statement of Activities property tax revenues	<u>\$ 1,146,262</u>

**NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS**

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

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

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$5,950,229 and the bank balance was \$5,951,422. Of the bank balance, \$2,421,992 was covered by federal insurance and \$3,529,430 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$1,094,916.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

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

Cash	\$ 193,813
Certificates of deposit	924,523
Temporary investments	<u>323,974</u>
	<u>\$ 1,442,310</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Capital Projects Fund

For construction of capital assets:

Cash	<u>\$ 2,520,360</u>
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During the fiscal year ended May 31, 2019, the District reimbursed the General Fund \$24,212 from the Capital Projects Fund in accordance with the rules of the Texas Commission on Environmental Quality.

### NOTE 8: RISK MANAGEMENT

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

At May 31, 2019, the District had physical damage and boiler and machinery coverage of \$8,000,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution liability coverage of \$1,000,000, umbrella liability coverage of \$1,000,000, automobile liability coverage of \$1,000,000, consultant's crime coverage of \$25,000 and a tax assessor-collector bond of \$50,000.

### NOTE 9: REGIONAL WATER AUTHORITY

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2000. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of May 31, 2019, the Authority had established a well pumpage fee of \$3.85 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$4.30 per 1,000 gallons. The District's fees payable to the Authority for the fiscal year ended May 31, 2019, were \$300,499. The District billed its customers \$280,311 during the fiscal year to pay for the fees charged by the Authority.

On February 21, 2005, the District and the Authority entered in to a Capital Contribution Contract (the "Contract"). In accordance with the Contract, the District contributed \$352,241 to the Authority during the fiscal year ended May 31, 2006 to pay for its share of the costs of constructing infrastructure to bring surface water to the District. Under the terms of the Contract, the District will receive a credit in the amount of \$7,947 for the 2005 calendar year, \$16,938 annually for the next four calendar years and \$24,022 annually for the next 26 calendar years. This credit is to be applied: first, against the District's pumpage fee, if any; second, against any amounts due to the Authority for water purchases or any other reason; and third, paid to the District by the Authority each in installments as payments are due, not less frequently than annually. The credit is based upon the amortization of the District's contribution beginning in 2010 at a rate of 4.8087% over 26 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

During the fiscal year ended May 31, 2019, the District received credits of \$24,022 under the provisions of the Contract. Of this amount, \$10,373 was a repayment of principal and \$13,649 was interest.

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

Credits Due During Fiscal Years Ending May 31	Principal	Interest	Total
2020	\$ 10,894	\$ 13,128	\$ 24,022
2021	11,442	12,580	24,022
2022	12,017	12,005	24,022
2023	12,621	11,401	24,022
2024	13,256	10,766	24,022
2025-2029	76,969	43,141	120,110
2030-2034	98,357	21,753	120,110
2035-2036	36,520	1,514	38,034
	<u>\$ 272,076</u>	<u>\$ 126,288</u>	<u>\$ 398,364</u>

Effective January 1, 2010, the Authority adopted a rate order which provided for the reimbursement to the District for costs incurred by the District to modify its system to accept surface water from the Authority. Such "Chloramine Credit" will be determined by the Authority upon completion and operation of the District's Chloramine System. The Chloramine Credit will be credited monthly to the amounts payable to the Authority for water used by the District over a 30-year period at 6% interest. During the fiscal year ended May 31, 2011, the Authority determined that the allowable costs of construction were \$311,648.

During the fiscal year ended May 31, 2019, the District received chloramine credits of \$22,641. Of this amount, \$5,935 was a repayment of principal and \$16,706 was interest.

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

Credits Due During Fiscal Years Ending May 31	Principal	Interest	Total
2020	\$ 6,306	\$ 16,335	\$ 22,641
2021	6,702	15,939	22,641
2022	7,121	15,520	22,641
2023	7,567	15,074	22,641
2024	8,041	14,600	22,641
2025-2029	48,422	64,783	113,205
2030-2034	65,610	47,595	113,205
2035-2039	88,898	24,307	113,205
2040-2041	32,371	1,587	33,958
	<u>\$ 271,038</u>	<u>\$ 215,740</u>	<u>\$ 486,778</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 10: WASTEWATER TREATMENT PLANT AGREEMENTS

#### Wastewater Treatment Plant Agreement

On December 13, 2004, the District and Harris County Municipal Utility District No. 202 ("No. 202") entered into a forty year agreement for the construction and operation of a new wastewater treatment plant (the "Plant") for both districts. The District and a developer within No. 202 financed the construction of the Plant. Capacity owned in the 725,000 gallons per day rated capacity of the Plant is as follows: the District – 600,000 gallons per day; No. 202 – 125,000 gallons per day. Ultimate Capacity owned in the 725,000 gallons per day rated capacity of the Plant will be as follows: the District – 350,000 gallons per day; No. 202 – 375,000 gallons per day. No. 202 has agreed to lease, and eventually purchase, the additional capacity as described in the following section of this report.

No. 202 operates and maintains the Plant pursuant to the terms and conditions of the agreement. Each district is responsible only for its share of the operating costs of the Plant which are allocated and billed monthly by No. 202 based upon each district's pro rata share of capacity and the metered flow of waste entering the Plant attributable to the each district. Capital costs are allocated and billed based upon percentage of capacity ownership. The Plant issues no debt. Each district records its share of the capital assets of the Plant in its financial statements. The District has contributed \$32,092 as its share of the Plant's operating reserve. During the year ended May 31, 2019, the District incurred costs of \$164,304 for operations.

### NOTE 11: FIRE PROTECTION

On June 11, 2007, the District and the Northwest Volunteer Fire Department (the "Fire Department") entered into a Fire Protection Service Agreement. Under the terms of the agreement, the Fire Department will provide fire protection services within the boundaries of the district and the District will make monthly payments to the Fire Department as determined by the District's Board of Directors. This service began in February 2009 after the voters within the District approved a fire protection plan in an election held November 4, 2008. The contract is for a one year period and is automatically renewed for successive one year terms unless cancelled by either party. As of May 31, 2019, the District was paying \$4,200 per month for this service and was charging its customers \$6.50 per month as part of the customers' water bill. The total payments to the Fire Department for the year ended May 31, 2019 were \$50,400.

### NOTE 12: STRATEGIC PARTNERSHIP AGREEMENT

On May 8, 2012, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "SPA"). Under the terms of the SPA, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The SPA states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this SPA.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$294,903 from the City for the fiscal year ended May 31, 2019. \$45,406 of this amount was receivable at that date.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED MAY 31, 2019

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Property taxes	\$ 429,610	\$ 429,610	\$ 448,220	\$ 18,610
Water service	285,000	285,000	197,594	(87,406)
Sewer service	200,000	200,000	289,468	89,468
Surface water fees	205,000	205,000	280,311	75,311
Penalty and other revenues	21,500	21,500	27,112	5,612
Tap connection and inspection fees	11,000	11,000	56,900	45,900
Sales and Use Taxes	300,000	300,000	294,903	(5,097)
Interest on surface water chloramine costs	0	0	16,706	16,706
Interest on prepaid surface water capital cont.	0	0	13,649	13,649
Interest on deposits and investments	8,000	8,000	32,053	24,053
<b>TOTAL REVENUES</b>	<u>1,460,110</u>	<u>1,460,110</u>	<u>1,656,916</u>	<u>196,806</u>
<b>EXPENDITURES</b>				
Service operations:				
Purchased sewer service	197,500	197,500	164,304	(33,196)
Professional fees	115,600	115,600	138,996	23,396
Contracted services	60,000	60,000	66,167	6,167
Utilities	40,000	40,000	51,008	11,008
Surface water fees	215,000	215,000	300,499	85,499
Repairs, maintenance and other operating expenditures	327,000	327,000	228,956	(98,044)
Fire protection	50,400	50,400	50,400	0
Garbage	100,000	100,000	107,011	7,011
Administrative expenditures	132,350	132,350	97,362	(34,988)
Capital outlay	0	0	38,177	38,177
<b>TOTAL EXPENDITURES</b>	<u>1,237,850</u>	<u>1,237,850</u>	<u>1,242,880</u>	<u>5,030</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>222,260</u>	<u>222,260</u>	<u>414,036</u>	<u>191,776</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Reimbursement from other fund	0	0	24,212	24,212
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>24,212</u>	<u>24,212</u>
<b>EXCESS SOURCES (USES)</b>	<u>222,260</u>	<u>222,260</u>	<u>438,248</u>	<u>215,988</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>3,249,738</u>	<u>3,249,738</u>	<u>3,249,738</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 3,471,998</u>	<u>\$ 3,471,998</u>	<u>\$ 3,687,986</u>	<u>\$ 215,988</u>

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

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
MAY 31, 2019

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

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



NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

SCHEDULE OF SERVICES AND RATES

MAY 31, 2019

1. Services Provided by the District during the Fiscal Year (unaudited):

- ☒ Retail Water
- ☐ Wholesale Water
- ☐ Drainage
- ☒ Retail Wastewater
- ☐ Wholesale Wastewater
- ☐ Irrigation
- ☒ Parks/Recreation
- ☒ Fire Protection
- ☐ Security
- ☒ Solid Waste/Garbage
- ☐ Flood Control
- ☐ Roads
- ☒ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
- ☐ Other

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$16.50*	5,000	N	\$1.60	5,000 to 12,000
				2.00	Over 12,000

\*Includes fire plan fee of \$6.50.

WASTEWATER:	\$30.88	5,000	N	\$1.25	Over 5,000
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SURCHARGE: \$4.30 per 1,000 gallons of water used -- NHCRWA surface water fee.

District employs winter averaging for wastewater usage: Yes ☐ No ☒

Total charges per 10,000 gallons usage: Water: \$24.50 Wastewater: \$37.13 Surcharge: \$43.00

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

SCHEDULE OF SERVICES AND RATES (Continued)

MAY 31, 2019

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	631	628	1.0	628
1"	59	59	2.5	148
1-1/2"	9	9	5.0	45
2"	40	40	8.0	320
3"	1	1	15.0	15
4"	0	0	25.0	0
6"	1	1	50.0	50
8"	2	2	80.0	160
10"	0	0	115.0	0
Total Water	<u>743</u>	<u>740</u>		<u>1,366</u>
Total Wastewater	<u>711</u>	<u>708</u>	1.0	<u>708</u>

\*Single family equivalents

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

Gallons pumped into system (unaudited): 78,000  
 Gallons billed to customers (unaudited): 74,487

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

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

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

EXPENDITURES

FOR THE YEAR ENDED MAY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Purchased sewer services	\$ 164,304	\$ 0	\$ 0	\$ 164,304
Professional fees:				
Auditing	10,950			10,950
Legal	107,677	6,537		114,214
Engineering	20,369			20,369
	<u>138,996</u>	<u>6,537</u>	<u>0</u>	<u>145,533</u>
Contracted services:				
Bookkeeping	14,866			14,866
Operation and billing	48,474			48,474
Sales tax consultant	2,827			2,827
Tax assessor-collector		11,222		11,222
Central appraisal district		8,589		8,589
	<u>66,167</u>	<u>19,811</u>	<u>0</u>	<u>85,978</u>
Utilities	<u>51,008</u>	<u>0</u>	<u>0</u>	<u>51,008</u>
Surface water fees:				
Ground water pumpage fees	6,605			6,605
Purchased surface water	293,894			293,894
	<u>300,499</u>	<u>0</u>	<u>0</u>	<u>300,499</u>
Repairs, maintenance and other operating expenditures:				
Repairs and maintenance	215,256			215,256
Chemicals	520			520
Laboratory costs	6,930			6,930
Sewer inspection fees	3,784			3,784
TCEQ assessment	2,466			2,466
	<u>228,956</u>	<u>0</u>	<u>0</u>	<u>228,956</u>
Fire protection	<u>50,400</u>	<u>0</u>	<u>0</u>	<u>50,400</u>
Garbage	<u>107,011</u>	<u>0</u>	<u>0</u>	<u>107,011</u>
Administrative expenditures:				
Director's fees	16,950			16,950
Office supplies and postage	13,495			13,495
Insurance	23,467	250		23,717
Permit fees	1,793			1,793
Other	41,657	6,181		47,838
	<u>97,362</u>	<u>6,431</u>	<u>0</u>	<u>103,793</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

EXPENDITURES (Continued)

FOR THE YEAR ENDED MAY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CAPITAL OUTLAY</b>				
Authorized expenditures	\$ 9,727	\$	\$ 349,608	\$ 359,335
Tap connection costs	28,450			28,450
	<u>38,177</u>	<u>0</u>	<u>349,608</u>	<u>387,785</u>
<b>DEBT SERVICE</b>				
Principal retirement	<u>0</u>	<u>545,000</u>	<u>0</u>	<u>545,000</u>
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>205,790</u>	<u>205,790</u>
Interest and fees:				
Interest		380,078		380,078
Paying agent fees		4,050		4,050
	<u>0</u>	<u>384,128</u>	<u>0</u>	<u>384,128</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,242,880</u>	<u>\$ 961,907</u>	<u>\$ 555,398</u>	<u>\$ 2,760,185</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MAY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash receipts from revenues excluding maintenance taxes	\$ 1,243,026	\$ 738,946	\$ 565	\$ 1,982,537
Maintenance tax receipts		448,220		448,220
Transfer of maintenance taxes	459,714			459,714
Reimbursement from other fund	24,212			24,212
Principal payment on receivables from regional water authority	16,308			16,308
Proceeds from sale of bonds			2,549,550	2,549,550
Repayment of interfund payable			15,000	15,000
Increase in customer deposits	3,320			3,320
Overpayments by taxpayers		<u>33,259</u>		<u>33,259</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>1,746,580</u>	<u>1,220,425</u>	<u>2,565,115</u>	<u>5,532,120</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>				
Cash disbursements for:				
Current expenditures	1,202,852	42,056		1,244,908
Capital outlay	38,177		244,334	282,511
Debt service		929,128	205,790	1,134,918
Other fund	81,189			81,189
Maintenance tax transfers		459,714		459,714
Repayment of interfund payable	15,000			15,000
Reimbursement to other fund			24,212	24,212
Refund of taxpayer overpayments		<u>36,288</u>		<u>36,288</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>1,337,218</u>	<u>1,467,186</u>	<u>474,336</u>	<u>3,278,740</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	409,362	(246,761)	2,090,779	2,253,380
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>2,673,113</u>	<u>1,689,071</u>	<u>429,581</u>	<u>4,791,765</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 3,082,475</u>	<u>\$ 1,442,310</u>	<u>\$ 2,520,360</u>	<u>\$ 7,045,145</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

MAY 31, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
<b>GENERAL FUND</b>				
Certificates of Deposit				
No. 8044600	2.00%	6/02/19	\$ 242,168	\$ 5,228
No. 1852001807	2.45%	12/09/19	104,609	1,215
No. 6000006699	2.56%	1/13/20	111,935	1,083
No. 8000037395	2.40%	4/10/20	240,000	805
No. 1003011680	2.40%	5/02/20	240,000	458
No. 9009001310	2.60%	5/08/20	<u>240,000</u>	<u>376</u>
			<u>\$ 1,178,712</u>	<u>\$ 9,165</u>
TexPool				
No. 7900500001	Market	On demand	<u>\$ 770,942</u>	<u>\$ 0</u>
<b>DEBT SERVICE FUND</b>				
Certificates of Deposit				
No. 51202275	2.60%	3/07/20	\$ 204,523	\$ 1,238
No. 95900011880346	2.35%	3/07/20	240,000	1,313
No. 3300041769	2.60%	5/03/20	240,000	462
No. 0123047453	2.35%	5/09/20	<u>240,000</u>	<u>309</u>
			<u>\$ 924,523</u>	<u>\$ 3,322</u>
TexPool				
No. 7900500003	Market	On demand	<u>\$ 323,974</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 3,198,151</u>	<u>\$ 12,487</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED MAY 31, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 20,990	\$ 32,931
Additions and corrections to prior year taxes	<u>(7,201)</u>	<u>(11,212)</u>
Adjusted receivable, beginning of year	13,789	21,719
2018 ADJUSTED TAX ROLL	<u>456,139</u>	<u>708,536</u>
Total to be accounted for	469,928	730,255
Tax collections: Current tax year	(443,312)	(688,611)
Prior tax years	<u>(4,908)</u>	<u>(7,736)</u>
RECEIVABLE, END OF YEAR	<u>\$ 21,708</u>	<u>\$ 33,908</u>
RECEIVABLE, BY TAX YEAR		
2008	\$ 2	\$ 3
2009	2	3
2010	781	1,249
2011	33	53
2012	379	607
2013	527	843
2014	723	1,156
2015	1,598	2,557
2016	1,425	2,214
2017	3,411	5,299
2018	<u>12,827</u>	<u>19,924</u>
RECEIVABLE, END OF YEAR	<u>\$ 21,708</u>	<u>\$ 33,908</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED MAY 31, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 57,527,548	\$ 58,782,982	\$ 47,018,006	\$ 45,393,207
Improvements	173,449,484	162,937,461	166,088,707	157,447,968
Personal property	101,315,127	102,390,317	131,026,716	128,131,322
Less exemptions	<u>(28,199,657)</u>	<u>(26,437,508)</u>	<u>(37,534,128)</u>	<u>(38,522,737)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 304,092,502</u>	 <u>\$ 297,673,252</u>	 <u>\$ 306,599,301</u>	 <u>\$ 292,449,760</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.23300	\$ 0.23300	\$ 0.23300	\$ 0.24000
Maintenance tax rates*	<u>0.15000</u>	<u>0.15000</u>	<u>0.15000</u>	<u>0.15000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.38300</u>	 <u>\$ 0.38300</u>	 <u>\$ 0.38300</u>	 <u>\$ 0.39000</u>
 TAX ROLLS	 <u>\$ 1,164,675</u>	 <u>\$ 1,140,089</u>	 <u>\$ 1,174,275</u>	 <u>\$ 1,140,554</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>97.2 %</u>	 <u>99.2 %</u>	 <u>99.7 %</u>	 <u>99.6 %</u>

\*Maximum tax rate approved by voters on April 2, 1977: \$0.15

See accompanying independent auditor's report.



NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS

MAY 31, 2019

<u>Series 2007</u>			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due October 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 25,000	\$ 15,950	\$ 40,950
2021	25,000	14,950	39,950
2022	25,000	13,950	38,950
2023	25,000	12,950	37,950
2024	25,000	11,931	36,931
2025	25,000	10,894	35,894
2026	25,000	9,857	34,857
2027	25,000	8,819	33,819
2028	25,000	7,781	32,781
2029	25,000	6,744	31,744
2030	<u>150,000</u>	<u>3,112</u>	<u>153,112</u>
TOTALS	<u>\$ 400,000</u>	<u>\$ 116,938</u>	<u>\$ 516,938</u>

<u>Series 2009</u>			
<u>Due During Fiscal Years Ending May 31</u>	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$	\$ 52,015	\$ 52,015
2021		52,015	52,015
2022		52,015	52,015
2023		52,015	52,015
2024		52,015	52,015
2025		52,015	52,015
2026		52,015	52,015
2027		52,015	52,015
2028		52,015	52,015
2029	155,000	52,015	207,015
2030	275,000	44,188	319,188
2031	290,000	30,300	320,300
2032	<u>310,000</u>	<u>15,655</u>	<u>325,655</u>
TOTALS	<u>\$ 1,030,000</u>	<u>\$ 610,293</u>	<u>\$ 1,640,293</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

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

MAY 31, 2019

<u>Due During Fiscal Years Ending May 31</u>	<u>Series 2011</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 70,000	\$ 158,238	\$ 228,238
2021	70,000	154,736	224,736
2022	70,000	152,374	222,374
2023	70,000	150,012	220,012
2024	70,000	147,650	217,650
2025	70,000	144,850	214,850
2026	70,000	142,050	212,050
2027	70,000	139,250	209,250
2028	70,000	136,274	206,274
2029	150,000	133,300	283,300
2030	210,000	126,926	336,926
2031	220,000	118,000	338,000
2032	230,000	108,650	338,650
2033	515,000	98,874	613,874
2034	550,000	76,344	626,344
2035	580,000	52,282	632,282
2036	<u>615,000</u>	<u>26,906</u>	<u>641,906</u>
TOTALS	<u>\$ 3,700,000</u>	<u>\$ 2,066,716</u>	<u>\$ 5,766,716</u>

<u>Due During Fiscal Years Ending May 31</u>	<u>Series 2015</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 230,000	\$ 93,050	\$ 323,050
2021	235,000	86,150	321,150
2022	250,000	79,100	329,100
2023	260,000	71,600	331,600
2024	275,000	61,200	336,200
2025	290,000	50,200	340,200
2026	305,000	38,600	343,600
2027	320,000	26,400	346,400
2028	<u>340,000</u>	<u>13,600</u>	<u>353,600</u>
TOTALS	<u>\$ 2,505,000</u>	<u>\$ 519,900</u>	<u>\$ 3,024,900</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

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

MAY 31, 2019

<u>Due During Fiscal Years Ending May 31</u>	<u>Series 2017</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 230,000	\$ 47,325	\$ 277,325
2021	230,000	42,725	272,725
2022	50,000	38,125	88,125
2023	50,000	37,125	87,125
2024	50,000	36,125	86,125
2025	50,000	34,625	84,625
2026	50,000	33,125	83,125
2027	50,000	31,625	81,625
2028	50,000	30,125	80,125
2029	50,000	28,625	78,625
2030	50,000	27,125	77,125
2031	50,000	25,625	75,625
2032	50,000	24,125	74,125
2033	50,000	22,625	72,625
2034	50,000	21,125	71,125
2035	50,000	19,500	69,500
2036	50,000	17,875	67,875
2037	250,000	16,250	266,250
2038	<u>250,000</u>	<u>8,125</u>	<u>258,125</u>
TOTALS	<u>\$ 1,710,000</u>	<u>\$ 541,925</u>	<u>\$ 2,251,925</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

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

MAY 31, 2019

Due During Fiscal Years Ending May 31	Series 2019		
	Principal Due April 1	Interest Due October 1, April 1	Total
2020	\$	\$ 72,829	\$ 72,829
2021		79,450	79,450
2022	40,000	79,450	119,450
2023	40,000	78,250	118,250
2024	40,000	77,050	117,050
2025	45,000	75,850	120,850
2026	45,000	74,500	119,500
2027	45,000	73,150	118,150
2028	50,000	71,800	121,800
2029	50,000	70,300	120,300
2030	55,000	68,800	123,800
2031	55,000	67,150	122,150
2032	60,000	65,500	125,500
2033	60,000	63,700	123,700
2034	65,000	61,900	126,900
2035	70,000	59,950	129,950
2036	70,000	57,850	127,850
2037	400,000	55,750	455,750
2038	400,000	43,750	443,750
2039	500,000	31,250	531,250
2040	500,000	15,625	515,625
TOTALS	<u>\$ 2,590,000</u>	<u>\$ 1,343,854</u>	<u>\$ 3,933,854</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

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

MAY 31, 2019

<u>Due During Fiscal Years Ending May 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2020	\$ 555,000	\$ 439,407	\$ 994,407
2021	560,000	430,026	990,026
2022	435,000	415,014	850,014
2023	445,000	401,952	846,952
2024	460,000	385,971	845,971
2025	480,000	368,434	848,434
2026	495,000	350,147	845,147
2027	510,000	331,259	841,259
2028	535,000	311,595	846,595
2029	430,000	290,984	720,984
2030	740,000	270,151	1,010,151
2031	615,000	241,075	856,075
2032	650,000	213,930	863,930
2033	625,000	185,199	810,199
2034	665,000	159,369	824,369
2035	700,000	131,732	831,732
2036	735,000	102,631	837,631
2037	650,000	72,000	722,000
2038	650,000	51,875	701,875
2039	500,000	31,250	531,250
2040	500,000	15,625	515,625
TOTALS	<u>\$ 11,935,000</u>	<u>\$ 5,199,626</u>	<u>\$ 17,134,626</u>

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT

FOR THE YEAR ENDED MAY 31, 2019

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series:	2007	2009	2011
Interest Rate:	4.00% to 4.15%	5.05%	3.375% to 5.00%
Dates Interest Payable:	October 1/ April 1	October 1/ April 1	October 1/ April 1
Maturity Dates:	October 1, 2019/2029	April 1, 2029/2032	April 1, 2020/2036
Bonds Outstanding at Beginning of Current Year	\$ 425,000	\$ 1,030,000	\$ 3,770,000
Less Retirements	<u>(25,000)</u>	<u>0</u>	<u>(70,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 400,000</u>	<u>\$ 1,030,000</u>	<u>\$ 3,700,000</u>
Current Year Interest Paid	<u>\$ 16,950</u>	<u>\$ 52,015</u>	<u>\$ 161,738</u>

Bond Descriptions and Original Amount of Issue

- (1) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Bonds, Series 2007  
(\$1,400,000)
- (2) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Bonds, Series 2009  
(\$1,030,000)
- (3) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Bonds, Series 2011  
(\$3,840,000)

Paying Agent/Registrar

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

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 36,850,000	\$ 3,150,000	\$ 10,000,000.00
Amount Issued:	16,930,000	2,590,000	3,383,688.76
Remaining to be Issued:	19,920,000	560,000	6,616,311.24

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)FOR THE YEAR ENDED MAY 31, 2019

	<u>(4)</u>	<u>(5)</u>	<u>(6)</u>	<u>Totals</u>
Bond Series:	2015	2017	2019	
Interest Rate:	3.00% to 4.00%	2.00% to 3.25%	3.00% to 3.125%	
Dates Interest Payable:	October 1/ April 1	October 1/ April 1	October 1/ April 1	
Maturity Dates:	April 1, 2020/2028	April 1, 2020/2038	April 1, 2022/2044	
Bonds Outstanding at Beginning of Current Year	\$ 2,725,000	\$ 1,940,000	\$	\$ 9,890,000
Add Bonds Sold			2,590,000	2,590,000
Less Retirements	<u>(220,000)</u>	<u>(230,000)</u>		<u>(545,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 2,505,000</u>	<u>\$ 1,710,000</u>	<u>\$ 2,590,000</u>	<u>\$ 11,935,000</u>
Current Year Interest Paid	<u>\$ 97,450</u>	<u>\$ 51,925</u>	<u>\$ 0</u>	<u>\$ 380,078</u>

Bond Descriptions and Original Amount of Issue

- (4) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Refunding Bonds, Series 2015 (\$3,150,000)
- (5) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Bonds, Series 2017 (\$1,940,000)
- (6) Northwest Harris County Municipal Utility District No. 6 Unlimited Tax Park Bonds, Series 2019 (\$2,590,000)

Paying Agent/Registrar

- (4) (6) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- (5) Amegy Bank, a division of ZB, National Association, Dallas, Texas

Net Debt Service Fund deposits balances as of May 31, 2019: \$1,432,870

Average annual debt service payment for remaining term of all debt: 815,935

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED MAY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 448,220	\$ 435,231	\$ 451,741	\$ 415,818	\$ 411,630	27.2 %	28.3 %	27.5 %	24.4 %	29.9 %
Water service	197,594	209,641	211,959	220,201	213,740	11.9	13.6	12.9	12.9	15.5
Sewer service	289,468	252,106	192,240	199,053	194,715	17.5	16.4	11.7	11.7	14.2
Surface water fees	280,311	262,996	229,699	204,005	189,937	16.9	17.1	14.0	12.0	13.8
Penalty and other revenues	27,112	21,837	16,553	21,543	16,336	1.6	1.4	1.0	1.3	1.2
Tap connection and inspection fees	56,900	48,836	9,677	0	9,022	3.4	3.2	0.6	0.0	0.7
Sales and Use Taxes	294,903	261,634	494,270	599,909	297,960	17.8	17.0	30.1	35.3	21.7
Interest on surface water chloramine costs	16,706	17,056	17,385	17,695	17,987	1.0	1.2	1.0	1.0	1.3
Interest on prepaid surface water capital contribution	13,649	14,145	14,618	15,068	15,497	0.8	0.8	0.9	0.9	1.1
Interest on deposits and investments	32,053	15,556	5,504	7,932	8,576	1.9	1.0	0.3	0.5	0.6
TOTAL REVENUES	<u>1,656,916</u>	<u>1,539,038</u>	<u>1,643,646</u>	<u>1,701,224</u>	<u>1,375,400</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Purchased sewer services	164,304	179,735	157,943	138,629	149,572	9.9	11.7	9.6	8.1	10.9
Professional fees	138,996	176,759	161,864	164,013	116,711	8.4	11.5	9.8	9.6	8.5
Contracted services	66,167	59,051	57,042	53,688	54,305	4.0	3.8	3.5	3.2	3.9
Utilities	51,008	59,350	60,425	59,934	54,974	3.1	3.9	3.7	3.5	4.0
Surface water fees	300,499	284,339	266,388	223,757	197,753	18.1	18.5	16.2	13.2	14.4
Repairs, maintenance and other operating expenditures	228,956	249,932	240,005	263,200	260,157	13.8	16.2	14.6	15.5	18.9
Fire protection	50,400	46,200	50,400	50,400	50,400	3.0	3.0	3.1	3.0	3.7
Garbage	107,011	73,350	21,443	21,392	21,409	6.5	4.8	1.3	1.3	1.6
Administrative expenditures	97,362	77,060	70,917	66,508	69,236	5.9	5.0	4.3	3.9	5.0
Capital outlay	38,177	34,338	302,969	1,339,735	154,711	2.3	2.2	18.3	78.7	11.2
TOTAL EXPENDITURES	<u>1,242,880</u>	<u>1,240,114</u>	<u>1,389,396</u>	<u>2,381,256</u>	<u>1,129,228</u>	<u>75.0</u>	<u>80.6</u>	<u>84.4</u>	<u>140.0</u>	<u>82.1</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 414,036</u>	<u>\$ 298,924</u>	<u>\$ 254,250</u>	<u>\$ (680,032)</u>	<u>\$ 246,172</u>	<u>25.0 %</u>	<u>19.4 %</u>	<u>15.6 %</u>	<u>(40.0) %</u>	<u>17.9 %</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>740</u>	<u>735</u>	<u>723</u>	<u>718</u>	<u>718</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>708</u>	<u>706</u>	<u>709</u>	<u>708</u>	<u>708</u>					

See accompanying independent auditor's report.



NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND

FOR YEARS ENDED MAY 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 696,347	\$ 675,791	\$ 701,406	\$ 665,308	\$ 658,607	94.0 %	96.2 %	98.3 %	98.0 %	97.6 %
Penalty and interest	17,446	13,548	6,869	10,638	7,642	2.4	1.9	1.0	1.6	1.1
Accrued interest on bonds received at date of sale	1,545	1,731	0	0	6,769	0.2	0.2	0.0	0.0	1.0
Interest on deposits and investments	24,915	12,235	5,001	2,811	2,354	3.4	1.7	0.7	0.4	0.3
TOTAL REVENUES	740,253	703,305	713,276	678,757	675,372	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	6,537	13,220	0	0	0	0.9	1.9	0.0	0.0	0.0
Contracted services	19,811	21,051	20,353	20,150	19,372	2.7	3.0	2.9	3.0	2.9
Other expenditures	6,431	4,066	4,612	4,524	3,645	0.9	0.6	0.6	0.7	0.5
Debt service:										
Principal retirement	545,000	305,000	230,000	225,000	205,000	73.5	43.4	32.2	33.1	30.3
Refunding contribution	0	0	0	0	48,533	0.0	0.0	0.0	0.0	7.2
Interest and fees	384,128	357,161	343,671	371,317	324,559	51.9	50.7	48.2	54.7	48.1
TOTAL EXPENDITURES	961,907	700,498	598,636	620,991	601,109	129.9	99.6	83.9	91.5	89.0
EXCESS REVENUES (EXPENDITURES)	\$ (221,654)	\$ 2,807	\$ 114,640	\$ 57,766	\$ 74,263	(29.9) %	0.4 %	16.1 %	8.5 %	11.0 %

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSMAY 31, 2019

Complete District Mailing Address: Northwest Harris County Municipal Utility District No. 6  
c/o Smith, Murdaugh, Little & Bonham, L.L.P.  
2727 Allen Parkway, Suite 1100  
Houston, Texas 77019

District Business Telephone No.: 713-652-6500

Submission date of the most recent District Registration Form: July 16, 2019

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

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
David W. Harris c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/16- 5/02/20	\$ 3,000	\$ 1,907	President
Eric L. Fox c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/05/18- 5/07/22	3,450	2,080	Vice President
Bob Parliament c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/16- 5/02/20	4,050	1,410	Secretary
Dennis Klimek c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/05/18- 5/07/22	3,300	2,903	Director
Dennis Jasek c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/05/18- 5/07/22	3,150	1,726	Director

See accompanying independent auditor's report.

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 6BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)MAY 31, 2019CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	11/75	\$ 114,214 74,019 Bonds	Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	4/81	16,651 2,500 Bonds	Bookkeeper
Mary Jarmon 3401 Louisiana, Suite 400 Houston, Texas 77002	6/16/03	0	Investment Officer
M. Marlon Ivy & Associates, Inc. P.O. Box 9 Spring, Texas 77383	3/12/12	233,451	Operator
Edminster, Hinshaw, Russ & Associates, Inc. 10555 Westoffice Drive Houston, Texas 77042	10/75	116,439	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	7/79	16,466 2,500 Bonds	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	8,589	Central Appraisal District
Masterson Advisors, LLC 3 Greenway Plaza, Suite 1100 Houston, Texas 77046	5/14/18	57,927	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	6/14/93	10,950 750 Bonds	Independent Auditor

See accompanying independent auditor's report.

## **APPENDIX B**

### **Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

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