

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 15, 2020

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

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

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

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

Underlying Rating: Moody's "Baa2"  
See "MUNICIPAL BOND RATING AND  
MUNICIPAL BOND INSURANCE" herein.

### **FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 26** ***(A political subdivision of the State of Texas located within Fort Bend County)***

**\$13,675,000**  
**UNLIMITED TAX BONDS**  
**SERIES 2020**

**Dated Date: March 1, 2020**

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

The \$13,675,000 Unlimited Tax Bonds, Series 2020 (the "Bonds") are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Missouri City or any entity other than the District.

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

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

### **MATURITY SCHEDULE**

Due (March 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (d)	Due (March 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (d)
2026	\$ 75,000	(c)			2036	\$ 835,000	(c)		
2027	100,000	(c)			2037	870,000	(c)		
2028	100,000	(c)			2038	910,000	(c)		
2029	100,000	(c)			2039	950,000	(c)		
2030	640,000	(c)			2040	995,000	(c)		
2031	670,000	(c)			2041	1,040,000	(c)		
2032	700,000	(c)			2042	1,085,000	(c)		
2033	730,000	(c)			2043	1,135,000	(c)		
2034	760,000	(c)			2044	1,185,000	(c)		
2035	795,000	(c)							

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

The Bonds, when issued, will constitute valid and legally binding obligations of Fort Bend County Municipal Utility District No. 26 (the "District") and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser (as herein defined) subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds through DTC is expected on or about March 25, 2020.

**Bids Due: Wednesday, February 19, 2020 at 1:00 P.M., Houston Time in Houston, Texas**  
**Bid Award: Wednesday, February 19, 2020 at 5:30 P.M., Houston Time in Missouri City, Texas**

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### USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

#### *Description...*

The District, located in Fort Bend County, Texas, is a political subdivision of the State of Texas created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) on June 28, 1978. The District contains approximately 564 acres of land. The District operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”

#### *Location...*

The District is located in Fort Bend County, approximately 17 miles southwest of downtown Houston and wholly within the corporate city limits of Missouri City, Texas. The District is intersected by FM 2234 (Texas Parkway) and Cartwright Road and is approximately five (5) miles south of the Wilcrest/Murphy Road exit on U.S. 59.

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

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

According to Quail Valley Utility District (the “Operator”) and Saliger Engineering Corporation (the “Engineer”), there was no interruption of water and sewer service as a result of Hurricane Harvey or Tropical Storm Imelda. Further, the District’s system did not sustain any material damage from Hurricane Harvey or Tropical Storm Imelda. Further, to the best knowledge of the District, no homes or commercial improvements within the District experienced structural flooding as a result of Hurricane Harvey or Tropical Storm Imelda.

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

#### *Status of Development...*

Development within the District includes the residential subdivisions of Quail Green West, Quail Green, Quail Green South, Bradford Village, Pebble Brook and Mustang Trails comprising 1,613 single-family residential lots on approximately 342 acres. Water, sanitary sewer and drainage facilities to serve Mustang Trails Section 3 (126 lots on approximately 21 acres) are currently under construction. As of January 16, 2020, there were 1,515 completed and occupied homes, 52 vacant homes, 43 homes under construction and 3 vacant developed lots available for construction. The 2019 average home value in the District was \$145,647. Centex Homes is building homes in Mustang Trails that range in sales price from \$191,240 to \$227,240. A senior living apartment facility (168 units) is currently being constructed on approximately 14 acres within the District with an expected completion date of late 2020.

Approximately 53 acres of land have been developed for commercial purposes, including a Wells Fargo Bank, a KFC restaurant, a Pizza Hut restaurant, an Auto Zone, a Valero service station and convenience store, a CVS drug store, a Foodarama grocery store with an adjacent strip shopping center, a Wing Stop restaurant, the 7Spice Seafood Kitchen restaurant, a Dollar Tree store, a Family Dollar Store, a furniture store, several hair and nail salons, Auto Max, Hartz Chicken restaurant, 2 dry cleaners, a liquor store and a McDonald's Restaurant.

In addition to the development described above, the District has approximately 44 acres remaining to be developed, 18 acres of land contained in a Missouri City park, 3 acres of other recreational land, 1 acre used for a Missouri City Fire Station and 9 acres owned by a church. There are approximately 58 acres that are easements, right of ways, streets or plant sites and are undevelopable. See "THE DISTRICT" and "STATUS OF DEVELOPMENT IN THE DISTRICT."

*The Developer ...*

Pulte Homes of Texas LP, a Texas limited partnership ("Pulte") has developed Pebble Brook (approximately 10 acres, 52 lots) and Mustang Trails Sections 1A and 1B (101 lots on approximately 18 acres). Pulte is currently developing Mustang Trails Section 3 (126 lots on approximately 21 acres). See "THE DEVELOPER."

## THE FINANCING

*The Issuer...*

Fort Bend County Municipal Utility District No. 26 (the "District"), a political subdivision of the State of Texas, located in Fort Bend County, Texas. See "THE DISTRICT."

*The Issue...*

\$13,675,000 Unlimited Tax Bonds, Series 2020 (the "Bonds") are issued pursuant to an order (the "Bond Order") of the District's Board of Directors. The Bonds mature serially on March 1 in each year 2026 through 2044, both inclusive, in the principal amounts set forth on the cover page of this Official Statement. Interest on the Bonds will accrue from March 1, 2020, with interest payable September 1, 2020 (six months of interest) and each March 1 and September 1 thereafter until maturity. The Bonds are subject to optional redemption, in whole or, from time to time in part, on March 1, 2025, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. See "THE BONDS."

*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."

*Authority for Issuance ...*

The Bonds are the fifth series of bonds issued out of an aggregate of \$90,559,688 principal amount of unlimited tax bonds for purposes of construction and acquisition of water, sanitary sewer and drainage facilities and for refunding such bonds authorized by the District's voters at multiple elections held in the District. After issuance of the Bonds, the District will have \$55,054,688 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of water, sanitary sewer and drainage facilities. The Bonds are being issued pursuant to Article XVI, Section 59 of the Constitution of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, and an order (the "Bond Order") of the Board of Directors (the "Board") of the District authorizing the issuance of the Bonds. See "THE BONDS—Authority for Issuance and Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."

*Source of Payment ...*

The Bonds are payable from a continuing direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Missouri City or any entity other than the District. See "THE BONDS—Source of Payment."



<i>Use of Proceeds...</i>	Proceeds from sale of the Bonds will be used to finance (1) water, sewer and drainage facilities and paving to serve Pebble Brook; (2) Wastewater Conveyance Phases 2 through 4; (3) Sewage Treatment Plant Diversion Lift Station and 8-inch Force main; (4) Rehabilitation and Improvements to Thunderbird Lift Station no. 2; (5) Sewage Treatment Plant rehabilitation and MCC Replacement; (6) Water Plant Rehabilitation and Upgrade; and (7) engineering fees and testing. Bond proceeds will also be used to pay Developer interest and to pay certain costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Payment Record ...</i>	The District has previously issued four series of unlimited tax bonds and five series of unlimited tax refunding bonds, \$8,800,000 of which remained outstanding as of January 1, 2020 (the “Outstanding Bonds”). The District has never defaulted in the payment of principal of and interest on the Outstanding Bonds.
<i>Not Qualified Tax-Exempt Obligations ...</i>	The Bonds are not designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See "TAX MATTERS—Not Qualified Tax-Exempt Obligations for Financial Institutions."
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	<p>Moody’s Investor Service (“Moody’s”) has assigned an underlying rating of “Baa2” to the Bonds. The fee associated with the rating assigned to the District by Moody’s will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Initial Purchaser. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p> <p>Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Initial Purchaser. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”</p>
<i>Bond Counsel ...</i>	Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, Houston, Texas.
<i>Financial Advisor ...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel ...</i>	McCall Parkhurst & Horton L.L.P., Disclosure Counsel, Houston, Texas.
<i>Investment Considerations ...</i>	The purchase and ownership of the Bonds are subject to special investment considerations, and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

## SELECTED FINANCIAL INFORMATION

2019 Certified Taxable Assessed Valuation .....	\$249,505,630 (a)
Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$279,512,775 (b)
Gross Debt Outstanding (after the issuance of the Bonds) .....	\$22,475,000
Estimated Overlapping Debt.....	<u>15,214,281 (c)</u>
Gross Debt and Estimated Overlapping Debt.....	\$37,689,281
Ratios of Gross Debt to:	
2019 Certified Taxable Assessed Valuation .....	9.01%
Estimated Taxable Assessed Valuation as of October 1, 2019 .....	8.04%
Ratios of Gross Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	15.11%
Estimated Taxable Assessed Valuation as of October 1, 2019 .....	13.48%
Debt Service Fund Balance as of January 15, 2020.....	\$3,544,850 (d)
Operating Fund Balance as of January 15, 2020 .....	\$1,221,219
Construction Fund Balance as of January 15, 2020.....	\$79,918
2019 Debt Service Tax Rate .....	\$0.6332
2019 Maintenance Tax Rate .....	<u>0.1500</u>
2019 Total Tax Rate .....	\$0.7832/\$100 A.V.
Projected Average Annual Debt Service Requirements (2020-2044) of the Bonds at an assumed interest rate of 4.00% ("Average Requirement") .....	\$1,325,786 (e)
Projected Maximum Annual Debt Service Requirement (2022) of the Bonds at an assumed interest rate of 4.00% ("Maximum Requirement") .....	\$1,811,393 (e)
Tax Rates Required to Pay Average Requirement (2020-2044) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.56/\$100 A.V.
Based upon Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$0.50/\$100 A.V.
Tax Rates Required to Pay Maximum Requirement (2022) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.77/\$100 A.V.
Based upon Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$0.69/\$100 A.V.
Water and Sewer Connections as of January 16, 2020 (f):	
Completed Homes – Occupied .....	1,515
Completed Homes – Vacant .....	52
Homes under construction or in a builder's name .....	43
Vacant Developed Lots .....	3
Commercial Connections .....	37

Estimated 2020 Population – 5,302 (g)

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of October 1, 2019, for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. The 2019 taxable assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to October 1, 2019. See "TAX PROCEDURES."
- (c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
- (d) Unaudited. The District is not required to maintain a particular fund balance.
- (e) See "DEBT SERVICE REQUIREMENTS."
- (f) See "STATUS OF DEVELOPMENT IN THE DISTRICT."
- (g) Based upon 3.5 persons per occupied home.

## **PRELIMINARY OFFICIAL STATEMENT**

### **FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 26** *(A political subdivision of the State of Texas located within Fort Bend County)*

#### **\$13,675,000 UNLIMITED TAX BONDS SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 26 (the “District”) of its \$13,675,000 Unlimited Tax Bonds, Series 2020 (the “Bonds.”)

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

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

## **THE BONDS**

### **Description**

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

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

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

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

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

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

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

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

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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

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

### **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.

### **Source of Payment**

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

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

### **Funds**

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

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

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

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

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

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

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

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

### **Record Date**

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

### **Redemption Provisions**

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

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

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

### **Authority for Issuance**

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

## **Issuance of Additional Debt**

At bond elections held within the District on August 12, 1978, June 27, 1981, September 14, 2002 and November 6, 2018, voters of the District authorized the issuance of \$90,559,688 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities and for refunding such bonds. The Bonds represent the fifth issuance from such authorizations. After issuance of the Bonds, the District will have \$55,054,688 principal amount in authorized but unissued unlimited tax bonds.

In addition, at a bond election held on August 5, 1989, voters of the District authorized the issuance of \$18,000,000 principal amount of unlimited tax refunding bonds. The District has \$8,936,131.21 principal amount in authorized but unissued unlimited tax refunding bonds.

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 authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the Commission; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered calling a park bond election at this time.

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

### **Abolishment**

Under Texas law, the District may be abolished and dissolved by Missouri City without the District's consent. If the District is abolished, Missouri City will assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days thereafter. Prior to abolishment and dissolution by Missouri City, the District shall have the opportunity to discharge any obligations of the District by selling its bonds or by causing Missouri City to sell bonds of Missouri City in an amount necessary to discharge such obligations. Abolishment of the District by Missouri City is a policymaking matter within the discretion of the Mayor and the City Council of Missouri City, and therefore, the District makes no representation that abolishment will or will not occur. Moreover, no representation is made concerning the ability of Missouri City to make debt service payments should abolishment occur.

### **Consolidation**

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

### **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 Fort Bend County, Texas, was created by the Texas Water Commission, predecessor to Commission, by an order dated June 28, 1978, pursuant to Article XVI, Section 59, Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code V.T.C.A., as amended. The District contains approximately 564 acres.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the collection of solid waste. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District also is empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City of Missouri 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 of Missouri City and of additional State of Texas agencies. See "THE SYSTEM—Regulation."

### **Description and Location**

The District is located in Fort Bend County, Texas, wholly within the corporate limits of the City of Missouri City, Texas, approximately 17 miles southwest of downtown Houston. The District is intersected by FM 2234 (Texas Parkway) and Cartwright Road and is approximately five (5) miles south of the Wilcrest/Murphy Road exit on U.S. 59.

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

### **Residential Development**

Development within the District includes the residential subdivisions of Quail Green West, Quail Green, Quail Green South, Bradford Village, Pebble Brook and Mustang Trails comprising 1,613 single-family residential lots on approximately 342 acres. Water, sanitary sewer and drainage facilities to serve Mustang Trails Section 3 (126 lots on approximately 21 acres) is currently under construction. As of January 16, 2020, there were 1,515 completed and occupied homes, 52 vacant homes, 43 homes under construction and 3 vacant developed lots available for construction. The 2019 average home value in the District was \$145,647. Centex Homes is building homes in Mustang Trails that range in sales price from \$191,240 to \$227,240.

### **Multi-Family Development**

A senior living apartment facility (168 units) is currently being constructed on approximately 14 acres within the District with an expected completion date of late 2020.

## **Commercial Development**

In addition to the residential development, 53 acres of land have been developed for commercial purposes, including a Wells Fargo Bank, a KFC restaurant, a Pizza Hut restaurant, an Auto Zone, a Valero service station and convenience store, a CVS drug store, a Foodarama grocery store with an adjacent strip shopping center, a Wing Stop restaurant, the 7Spice Seafood Kitchen restaurant, Dollar Tree store, a Family Dollar Store, a furniture store, several hair and nail salons, Auto Max, Hartz Chicken restaurant, 2 dry cleaners, a liquor store and a McDonald's Restaurant.

## **Undeveloped Acreage**

In addition to the development described above, the District has approximately 44 acres remaining to be developed, 18 acres of land contained in a Missouri City park, 3 acres of other recreational land, 1 acre used for a Missouri City Fire Station and 9 acres owned by a church. There are approximately 58 acres that are easements, right of ways, streets or plant sites and are undevelopable.

## **THE DEVELOPER**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is generally required by the Commission to advance funds to pave streets (in areas where District facilities are being financed with bonds) and finance the construction of the water, wastewater and storm drainage facilities, such advances to be reimbursed (except for paving costs) from the sale of District bonds to the extent allowed by the Commission, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

## **Pulte Homes of Texas LP**

Pulte Homes of Texas LP, a Texas limited partnership ("Pulte" or the "Developer") has developed Pebble Brook (approximately 10 acres, 52 lots) and Mustang Trails Sections 1A and 1B (101 lots on approximately 18 acres). Pulte is currently developing Mustang Trails Section 3 (126 lots on approximately 21 acres). Pulte owns no additional land within the District.

## **MANAGEMENT OF THE DISTRICT**

### **Board of Directors**

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Demonica Johnson	President	May 2020
Charles Benton	Vice President	May 2020
Kevin Wheeler	Secretary	May 2020
Frederick Walker	Asst. Secretary	May 2022
Toxie Cockrell	Director	May 2022

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

### **Tax Appraisal**

Land and improvements within the District are appraised for ad valorem taxation purposes by the Fort Bend Central Appraisal District.

### **Tax Assessor/Collector**

The District's tax assessor/collector is Utility Tax Service, LLC (the "Tax Assessor/Collector").

### **Bookkeeper**

The District contracts with Claudia Redden & Associates, L.L.C. for bookkeeping services.

### **Utility System Operator**

The District contracts with Quail Valley Utility District (“Quail Valley” or the “Operator”) for maintenance and operation of the District’s system.

### **Engineer**

The District’s consulting engineer is Saliger Engineering Corporation (the “Engineer”).

### **Attorney**

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

### **Financial Advisor**

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

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which audited financial statements are filed with the Commission. The financial statements of the District, as of September 30, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein See “APPENDIX A” for a copy of the District’s September 30, 2019 audited financial statements.

## **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 wastewater 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 Fort Bend County Flood Control District, Fort Bend County and, in some instances, the Commission. Fort Bend County, the City of Missouri 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 water supply system that currently serves the District includes one water plant with the current capacity to serve 1,875 equivalent single-family connections (esfc). Water Plant No. 1 has two wells with a combined capacity of 1,963 gallons-per-minute (gpm), 3,750 gpm of booster pump capacity, a 1,000,000 gallon ground storage tank capacity and 45,000 gallons of hydropneumatic tank capacity. Proceeds of the Bonds will be used to finance improvements which will increase the capacity of current facilities to 2,500 esfc and include an additional 15,000 gallons of hydropneumatic tank capacity and an additional 2,250 gpm of booster pump capacity. The District currently serves approximately 1,633 esfc.

The District has emergency water interconnect agreements with Thunderbird Utility District and Meadowcreek Municipal Utility District.

## **Subsidence District Requirements**

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. On September 24, 2003, the Subsidence District issued a District Regulatory Plan (the “Plan”) to reduce groundwater withdrawal through conversion to surface water or other alternative water sources in certain areas within the Subsidence District’s jurisdiction. Under the Plan, the District is required to have a groundwater reduction plan (“GRP”) approved by the Subsidence District by the beginning date of the District’s permit term in 2008, or pay a disincentive fee for any groundwater withdrawn in excess of 40% of the District’s total annual water demand. Additional disincentive fees would be imposed under the Plan if the District’s groundwater withdrawal exceeds 70% of the District’s total water demand beginning January 2015, and exceeds 40% of the District’s total annual water demand beginning in 2025. The disincentive fee established by the Subsidence District is currently \$6.50 per 1,000 gallons .

The District has opted to become part of the City of Missouri City’s (the “City”) GRP pursuant to a contract entered into between the District and the City. As a participant in the City’s GRP, the District has complied with all Subsidence District requirements in regard to the conversion to surface water, and is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City by the District in the future. The City has established a fee of \$1.72 per 1,000 gallons of groundwater pumped, payable monthly. The pumpage fee 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 in order to develop surface water conversion infrastructure should the City require the District to convert to surface water and connect to the City’s water supply system or should the District determine that it would be in the District’s best interest to supplement or replace its groundwater supply with surface water.

## **Wastewater Treatment System**

The District’s wastewater treatment is provided by a permanent 500,000 gallon per day (gpd) capacity wastewater treatment plant located in the District. It also owns 400,000 gpd of wastewater treatment capacity in the Quail Valley Utility District Regional Plant thus the District has a total capacity of 900,000 gpd capable of serving 3,000 connections.

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

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

## **100-Year Flood Plain**

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards. According to the District’s Engineer, none of the land located within the District is located within the 100-year floodplain. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey; Tropical Storm Imelda.”

## **Atlas 14**

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

## USE AND DISTRIBUTION OF BOND PROCEEDS

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

### CONSTRUCTION COSTS

Water, sewer, drainage facilities, paving and appurtenances to serve Pebble Brook.....	\$ 617,430
Wastewater Conveyance Rehab Phase 2 - Pipe Bursting.....	2,400,000
Wastewater Conveyance Rehab Phase 3 - Cured in Place Pipe Rehabilitation.....	850,000
Wastewater Conveyance Rehab Phase 4 - Manhole Repairs .....	750,000
Sewage Treatment Plant Diversion Lift Station and 8-In Force main STP to Thunderbird Lift station No. 2...	1,850,000
Rehab, Renovate and Upgrade - Thunderbird Lift Station No. 2.....	930,000
Sewage Treatment Plant Rehabilitation and MCC Replacement.....	1,800,000
Water Plant Rehab and Upgrade.....	835,957
Engineering, Geotechnical, CPS and Materials Testing.....	1,551,198
Contingencies.....	941,596
<b>Total Construction Related Costs.....</b>	<b>\$ 12,526,181</b>

### NON-CONSTRUCTION COSTS

Legal Fees.....	\$ 278,500
Fiscal Agent Fees.....	273,500
Developer Interest.....	59,407
Attorney General Fee.....	9,500
Bond Discount (Estimated at 3%).....	410,250
Administration and Bond Issuance Costs.....	43,474
TCEQ Bond Issuance Fees.....	34,188
Bond Application Report Costs.....	40,000
<b>Total Nonconstruction Costs.....</b>	<b>\$ 1,148,819</b>
<b>TOTAL BOND ISSUE.....</b>	<b>\$ 13,675,000</b>

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds and the estimated debt service requirements for the Bonds at an assumed interest rate of 4.00% per annum.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$ 1,232,893		\$ 273,500	\$ 273,500	\$ 1,506,393
2021	1,252,583		547,000	547,000	1,799,583
2022	1,264,393		547,000	547,000	1,811,393
2023	1,259,423		547,000	547,000	1,806,423
2024	1,250,812		547,000	547,000	1,797,812
2025	1,244,315		547,000	547,000	1,791,315
2026	614,638	\$ 75,000	545,500	620,500	1,235,138
2027	598,825	100,000	542,000	642,000	1,240,825
2028	584,488	100,000	538,000	638,000	1,222,488
2029	574,888	100,000	534,000	634,000	1,208,888
2030	-	640,000	519,200	1,159,200	1,159,200
2031	-	670,000	493,000	1,163,000	1,163,000
2032	-	700,000	465,600	1,165,600	1,165,600
2033	-	730,000	437,000	1,167,000	1,167,000
2034	-	760,000	407,200	1,167,200	1,167,200
2035	-	795,000	376,100	1,171,100	1,171,100
2036	-	835,000	343,500	1,178,500	1,178,500
2037	-	870,000	309,400	1,179,400	1,179,400
2038	-	910,000	273,800	1,183,800	1,183,800
2039	-	950,000	236,600	1,186,600	1,186,600
2040	-	995,000	197,700	1,192,700	1,192,700
2041	-	1,040,000	157,000	1,197,000	1,197,000
2042	-	1,085,000	114,500	1,199,500	1,199,500
2043	-	1,135,000	70,100	1,205,100	1,205,100
2044	-	1,185,000	23,700	1,208,700	1,208,700
Total	\$ 9,877,255	\$ 13,675,000	\$ 9,592,400	\$23,267,400	\$ 33,144,655

Maximum Annual Debt Service Requirement (2022)..... \$1,811,393  
Average Annual Debt Service Requirement (2020-2044)..... \$1,325,786

## FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation .....	\$249,505,630	(a)
Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$279,512,775	(b)

### Direct Debt:

Outstanding Bonds (as of January 1, 2020) .....	\$8,800,000
Plus: The Bonds .....	<u>13,675,000</u>
Gross Debt Outstanding .....	\$22,475,000

### Ratios of Gross Debt to:

2019 Certified Taxable Assessed Valuation .....	9.01%
Estimated Taxable Assessed Valuation as of October 1, 2019 .....	8.04%

Area of District – 564 Acres  
Estimated 2020 Population – 5,302 (c)

- (a) As certified by the Fort Bend Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) As estimated by the Appraisal District as of October 1, 2019, for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. The 2019 taxable assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2019 to October 1, 2019. See “TAX PROCEDURES.”
- (c) Based upon 3.5 persons per occupied residence.

### **Cash and Investment Balances** (unaudited as of January 15, 2020)

Capital Projects Fund	Cash and Temporary Investments	\$79,918
Operating Fund	Cash and Temporary Investments	\$1,221,219
Debt Service Fund	Cash and Temporary Investments	\$3,544,850 (a)

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

### **District Investment Policy**

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

### **Outstanding Bonds** (as of January 1, 2020)

Series	Original Principal Amount	Outstanding Bonds (as of 1/1/20)
U/L Tax Refunding Bonds, Series 2014	\$ 7,315,000	\$ 4,355,000
U/L Tax Refunding Bonds, Series 2016	5,155,000	<u>4,445,000</u>
Total		\$ 8,800,000

## ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities which include the territory in the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date of such reports, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt allocable to the District.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 594,872,527	11/30/2019	0.35%	\$ 2,082,054
Houston Community College.....	560,480,000	11/30/2019	0.12%	672,576
City of Missouri City.....	170,420,000	11/30/2019	3.53%	6,015,826
Fort Bend ISD.....	1,092,173,767	11/30/2019	0.59%	6,443,825
Total Estimated Overlapping Debt.....				\$ 15,214,281
The District.....	22,475,000 (a)	Current	100.00%	22,475,000
Total Direct and Estimated Overlapping Debt.....				\$ 37,689,281
Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Taxable Assessed Valuation.....				15.11%
Ratio of Estimated Direct and Overlapping Debt to Estimate of Taxable Assessed Valuation as of October 1, 2019.....				13.48%

(a) The Bonds and the Outstanding Bonds.

### Overlapping Tax Rates 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.

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (a).....	\$ 0.460000
Fort Bend ISD.....	1.270000
Houston Community College.....	0.100263
City of Missouri City.....	0.630000
Total Overlapping Tax Rate.....	\$ 2.460263
The District.....	\$ 0.783200
Total Tax Rate.....	\$ 3.243463

(a) Includes Fort Bend County Drainage District



## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 at the rate of \$0.6332 per \$100 assessed valuation. See "Tax Rate Distribution" above.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by the District's voters. At an election held April 12, 1978, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.15 per \$100 assessed valuation and in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. See "Tax Rate Distribution" herein.

### Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$0.6332	\$0.6400	\$0.6568	\$0.6750	\$0.6900
Maintenance and Operations	0.1500	0.1432	0.1457	0.1475	0.1500
Total	\$0.7832	\$0.7832	\$0.8025	\$0.8225	\$0.8400

### Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).  
Maintenance: Not to exceed \$0.15 per \$100 assessed valuation

### Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of December 31, 2019 (a)	
				Amount	Percent
2014	\$ 155,453,201	\$ 0.8750	\$ 1,360,216	\$ 1,354,256	99.56%
2015	172,918,690	0.8400	1,452,517	1,443,306	99.37%
2016	191,541,031	0.8225	1,575,425	1,563,771	99.26%
2017	207,411,426	0.8025	1,664,476	1,647,424	98.98%
2018	228,260,880	0.7832	1,787,740	1,752,910	98.05%
2019	249,505,630	0.7832	1,954,128	(b)	(b)

(a) Unaudited.

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

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

### **Tax Exemptions**

As discussed in the section titled “TAX PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2019, the District has adopted a \$10,000 exemption for persons who are 65 or older and/or disabled.

### **Additional Penalties**

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

### **Principal Taxpayers**

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

Taxpayer	Type of Property	% of	
		2019 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Quail Valley Station LLC	Land, Improvements & Personal	\$ 4,031,984	1.62%
Gillett Properties Ltd.	Land & Improvements	2,063,610	0.83%
Bank Champaign N.A.	Land & Improvements	1,393,670	0.56%
Pulte Homes of Texas LP	Land	1,351,710	0.54%
NASA4 Enterprise Inc.	Land & Improvements	1,325,915	0.53%
Omid Center Group Ltd. Partnership	Land & Improvements	1,277,600	0.51%
Centerpoint Energy Electric	Personal Property	1,203,200	0.48%
Blueroad Net Lease LLC	Land & Improvements	1,177,100	0.47%
Comcast of Houston LLC	Personal Property	1,150,980	0.46%
Gala at Texas Parkway LP	Land	1,063,130	0.43%
Total		\$ 16,038,899	6.43%

### **Summary of Assessed Valuation**

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

	2019	2018	2017	2016	2015
Land	\$ 50,804,650	\$ 46,894,320	\$ 44,569,061	\$ 42,761,710	\$ 42,762,030
Improvements	214,100,186	184,988,433	164,221,354	149,597,595	129,349,095
Personal Property	9,551,510	8,653,510	10,199,832	9,533,320	7,938,600
Exemptions	(24,950,716)	(12,262,513)	(11,578,821)	(10,351,594)	(7,131,035)
Total	<u>\$ 249,505,630</u>	<u>\$ 228,273,750</u>	<u>\$ 207,411,426</u>	<u>\$ 191,541,031</u>	<u>\$ 172,918,690</u>

## **Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation of \$249,505,630, or the Estimated Taxable Assessed Valuation as of October 1, 2019 of \$279,512,775, which is subject to review and adjustment prior to certification, and a debt service tax rate necessary to pay the District's average annual and maximum annual debt service requirements on the District's Outstanding Bonds and the Bonds. See "INVESTMENT CONSIDERATIONS—Impact on District Tax Rates."

Average Annual Debt Service Requirement (2020-2044).....	\$1,325,786
\$0.56 Tax Rate on the 2019 Certified Taxable Assessed Valuation.....	\$1,327,370
\$0.50 Tax Rate on the Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$1,327,686
Maximum Annual Debt Service Requirement (2022).....	\$1,811,393
\$0.77 Tax Rate on the 2019 Certified Taxable Assessed Valuation.....	\$1,825,134
\$0.69 Tax Rate on the Estimated Taxable Assessed Valuation as of October 1, 2019 .....	\$1,832,206

No representations or suggestions are made that estimated values of land and improvements provided by the Appraisal District in the Estimated Taxable Assessed Valuation as of October 1, 2019 will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAX PROCEDURES."

## **TAX PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully herein under "THE BONDS—Source of and Security for Payment." Under Texas law, the Board 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 Fort Bend Central Appraisal District has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board").

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For the 2019 tax year, the District has adopted a residential homestead exemption in the amount of \$10,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. See "TAX DATA."

Partially disabled veterans or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces

who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

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

### **Tax Abatement**

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

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

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

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

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

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

### **District and Taxpayer Remedies**

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

### **Levy and Collection of Taxes**

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

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

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the unit assesses taxes on the reappraised market value of the property.

## **Senate Bill 2**

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

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

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

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

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

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

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

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

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

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## WATER AND SEWER OPERATING STATEMENT

The following statement sets forth in condensed form the historical results of operation of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended September 30, 2015 through 2019. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30				
	2019	2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 324,574	\$ 298,912	\$ 279,755	\$ 260,091	\$ 229,611
Water Service	376,652	372,629	368,356	371,550	373,873
Sewer Service	363,553	359,767	369,897	342,464	344,135
Surface Water Conversion	208,683	216,330	207,969	206,546	209,177
Garbage Service	290,560	278,880	272,780	281,393	358,183
Penalty and Interest	38,585	40,351	39,587	40,916	42,573
Tap Connection and Inspection Fees	166,125	2,850	81,297	-	-
Investment Income	34,669	27,050	5,402	2,531	479
Other Income	28,298	34,007	9,261	16,387	12,560
<b>Total Revenues</b>	<u>\$ 1,831,699</u>	<u>\$ 1,630,776</u>	<u>\$ 1,634,304</u>	<u>\$ 1,521,878</u>	<u>\$ 1,570,591</u>
<b>Expenditures</b>					
Regional Water Fee	\$ 214,580	\$ 217,912	\$ 198,084	\$ 196,677	\$ 203,278
Purchased Services	135,683	128,564	-	-	-
Professional Fees	404,364	396,767	362,592	333,443	138,599
Contracted Services	466,047	468,370	444,038	469,974	541,285
Utilities	61,455	94,767	85,574	83,829	81,150
Repairs and Maintenance	623,787	406,528	386,261	673,670	341,167
Other	110,797	96,447	115,130	110,910	93,540
Tap Connection	50,910	-	43,704	-	-
Capital Outlay	363,401	71,976	48,899	56,579	26,197
<b>Total Expenditures</b>	<u>\$ 2,431,024</u>	<u>\$ 1,881,331</u>	<u>\$ 1,684,282</u>	<u>\$ 1,925,082</u>	<u>\$ 1,425,216</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ (599,325)</u>	<u>\$ (250,555)</u>	<u>\$ (49,978)</u>	<u>\$ (403,204)</u>	<u>\$ 145,375</u>
<b>Other Sources (Uses)</b>					
Interfund Transfers In (Out)	\$ -	\$ 1,164,198 (a)	\$ -	\$ 201,669	\$ 132,100
<b>Total Other Financing Sources</b>	<u>\$ -</u>	<u>\$ 1,164,198</u>	<u>\$ -</u>	<u>\$ 201,669</u>	<u>\$ 132,100</u>
<b>Fund Balance (Beginning of Year)</b>	<u>\$ 1,517,873</u>	<u>\$ 604,230</u>	<u>\$ 654,208</u>	<u>\$ 855,743</u>	<u>\$ 578,268</u>
<b>Fund Balance (End of Year)</b>	<u><u>\$ 918,548</u></u>	<u><u>\$ 1,517,873</u></u>	<u><u>\$ 604,230</u></u>	<u><u>\$ 654,208</u></u>	<u><u>\$ 855,743</u></u>

(a) Represents a transfer to the Capital Projects Fund to reimburse for prior expenditures.



## **INVESTMENT CONSIDERATIONS**

### **General**

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

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

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

According to the Operator and Engineer, there was no interruption of water and sewer service as a result of Hurricane Harvey or Tropical Storm Imelda. Further, the District's system did not sustain any material damage from Hurricane Harvey or Tropical Storm Imelda. Further, to the best knowledge of the District, no homes or commercial improvements within the District experienced structural flooding as a result of Hurricane Harvey or Tropical Storm Imelda.

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

### **Specific Flood Type Risks**

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

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

### **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 17 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District's property tax base.

## **Competition**

The demand for and construction of single-family homes in the District, which is approximately 17 miles from the central downtown business district of the City of Houston, could be affected by competition from other residential developments including other residential developments located in the northwestern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

## **Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Taxable Assessed Valuation of the District (see “FINANCIAL STATEMENT (UNAUDITED)”) is \$249,505,630. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,811,393 (2022) and the average annual debt service requirement will be \$1,325,786 (2020-2044). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.77 per \$100 taxable assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$1,811,393 and a tax rate of \$0.56 per \$100 taxable assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,325,786 (see “DEBT SERVICE REQUIREMENTS”). The District’s Estimated Taxable Assessed Valuation as of October 1, 2019 is \$279,512,775, which reduces the above calculations to a tax rate of \$0.69 to pay the maximum debt service requirement on and a tax rate of \$0.50 to pay the average annual debt service requirement. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2019 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of October 1, 2019, the District can make no representations regarding the future level of assessed valuation within the District. Increases in taxable values depend primarily on the continuing construction and sale of taxable improvements within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.” See “TAX PROCEDURES.”

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

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

## **Future Debt**

The District has reserved in the Bond 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. At bond elections held within the District on August 12, 1978, June 27, 1981, September 14, 2002 and November 6, 2018, voters of the District authorized the issuance of \$90,559,688 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities and for refunding such bonds, \$68,729,688 principal amount of which remains authorized but unissued. The Bonds represents the fifth issuance from such authorizations. After issuance of the Bonds, the District will have \$55,054,688 principal amount in authorized but unissued unlimited tax bonds. In addition, at a bond election held on August 5, 1989, voters of the District authorized the issuance of \$18,000,000 principal amount of unlimited tax refunding bonds. The District has \$8,936,131.21 principal amount in authorized but unissued unlimited tax refunding bonds. After the issuance of the Bonds, it is estimated that the Developer will have expended funds for water, sewer and drainage, park and recreational and road facilities in the amount of approximately \$8,345,000 which have not been reimbursed. See “THE BONDS—Issuance of Additional Debt”, “Financing Recreational Facilities” and “Financing Road Facilities.” The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The District can make no representation that any additional development will occur within the District. The Engineer has stated that the District's authorized but unissued bonds and other available District funds are adequate, under present land use projections, to finance the improvements necessary to serve such development. The District has no plans to call an election to authorize additional bonds at this time. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS—Issuance of Additional Debt.”

## **Tax Collections Limitations**

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

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond 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.

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

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

### **Marketability**

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

### **Environmental Regulation and Air Quality**

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

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are released into the air, water, 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 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 District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ 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. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future.

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 became final on December 23, 2019.

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

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

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

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

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

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

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

## **LEGAL MATTERS**

### **Legal Opinion**

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

## **Legal Review**

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

## **No-Litigation Certificate**

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

## **No Material Adverse Change**

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

## **TAX MATTERS**

### **Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

## **Collateral Federal Income Tax Consequences**

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

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



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

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

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

### **Future and Proposed Legislation**

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

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

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

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

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

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

Moody's Investors Service ("Moody's") has assigned an underlying rating of "Baa2" to the Bonds. An explanation of the rating may be obtained from Moody's. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Initial Purchaser.

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

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

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

### **Award of the Bonds**

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

## **Prices and Marketability**

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

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

## **Securities Laws**

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

# **PREPARATION OF OFFICIAL STATEMENT**

## **Sources and Compilation of Information**

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

## **Financial Advisor**

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

The summary of the Bond Order, District contracts and provisions of state and federal law contained under the captions "THE BONDS (except "Book Entry Only System")," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS" and "TAX MATTERS"—Smith, Murdaugh, Little & Bonham, L.L.P.; "STATUS OF DEVELOPMENT IN THE DISTRICT" — Saliger Engineering Corporation and Quail Valley; "THE DEVELOPER" – Pulte; "THE SYSTEM"— Saliger Engineering Corporation and Quail Valley "SELECTED FINANCIAL INFORMATION," "ESTIMATED OVERLAPPING DEBT STATEMENT" and "TAX DATA"— Fort Bend Central Appraisal District, Utility Tax Service, LLC and the Municipal Advisory Council of Texas.

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

## **Consultants**

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

**Auditor:** The financial statements of the District, as of September 30, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District's September 30, 2019, audited financial statements.

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

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

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

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

## **Updating the Official Statement**

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

## **Certification of Official Statement**

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

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond 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 includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA (except for the subsection entitled "Tax Adequacy for Debt Service")," "THE SYSTEM" and "DEBT SERVICE REQUIREMENTS" (most of which information is contained in the District's annual audited financial statements) and in APPENDIX A. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 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 "Rule"). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond 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 September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB via EMMA of the change.

## **Specified Event Notices**

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

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

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

## **Limitations and Amendments**

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

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

#### **Compliance With Prior Undertakings**

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

#### **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Fort Bend County Municipal Utility District No. 26, as of the date shown on the cover page.

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

ATTEST:

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

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



FORT BEND MUNICIPAL  
UTILITY DISTRICT NO. 26

FM 2234





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



















## **APPENDIX A**

### **Independent Auditor's Report and Financial Statements of the District for the fiscal year ended September 30, 2019**

# **Fort Bend County Municipal Utility District No. 26**

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2019





# Fort Bend County Municipal Utility District No. 26

## September 30, 2019

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## Independent Auditor's Report

Board of Directors  
Fort Bend County Municipal Utility District No. 26  
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 26 (the District), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule listed in the table of contents 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
February 5, 2020

# **Fort Bend County Municipal Utility District No. 26**

## **Management's Discussion and Analysis**

### **September 30, 2019**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

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, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, 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, liabilities, and deferred inflows and outflows of resources of 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 assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' 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. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 year.

# **Fort Bend County Municipal Utility District No. 26**

## **Management's Discussion and Analysis (Continued)**

### **September 30, 2019**

Although the statement of activities looks different from a commercial enterprise's statement of income, 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 Funds**

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes 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, sewer and drainage 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 assets, liabilities, and deferred inflows and outflows of resources 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 is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to 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.

#### **Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Fort Bend County Municipal Utility District No. 26**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2019**

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

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 4,539,075	\$ 4,680,826
Capital assets	<u>8,962,314</u>	<u>6,992,990</u>
Total assets	<u>13,501,389</u>	<u>11,673,816</u>
Deferred outflows of resources	<u>176,571</u>	<u>198,746</u>
Total assets and deferred outflows of resources	<u><u>\$ 13,677,960</u></u>	<u><u>\$ 11,872,562</u></u>
Long-term liabilities	\$ 13,010,854	\$ 11,153,496
Other liabilities	<u>582,099</u>	<u>402,056</u>
Total liabilities	<u>13,592,953</u>	<u>11,555,552</u>
Net position:		
Net investment in capital assets	(3,890,651)	(3,961,760)
Restricted	3,020,425	2,743,516
Unrestricted	<u>955,233</u>	<u>1,535,254</u>
Total net position	<u><u>\$ 85,007</u></u>	<u><u>\$ 317,010</u></u>

The total net position of the District decreased by \$232,003. The majority of the decrease in net position is related to an increase in services expenses, as well as impact fees incurred. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Fort Bend County Municipal Utility District No. 26**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2019**

**Summary of Changes in Net Position**

	<b>2019</b>	<b>2018</b>
Revenues:		
Property taxes	\$ 1,776,737	\$ 1,667,278
Charges for services	1,239,448	1,227,606
Other revenues	368,315	183,586
	<hr/>	<hr/>
Total revenues	3,384,500	3,078,470
	<hr/>	<hr/>
Expenses:		
Services	2,123,528	1,859,472
Depreciation	439,542	396,227
Impact fees	799,040	-
Debt service	254,393	276,100
	<hr/>	<hr/>
Total expenses	3,616,503	2,531,799
	<hr/>	<hr/>
Change in net position	(232,003)	546,671
Net position, beginning of year	317,010	(229,661)
	<hr/>	<hr/>
Net position, end of year	\$ 85,007	\$ 317,010
	<hr/>	<hr/>

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

The District's combined fund balances as of the end of the fiscal year ended September 30, 2019, were \$3,802,247, a decrease of \$328,227 from the prior year.

The general fund's fund balance decreased by \$599,325, primarily due to service operations and capital outlay expenditures exceeding property taxes and service revenues.

The debt service fund's fund balance increased by \$264,093 because property taxes revenues generated exceeded bond principal and interest requirements.

The capital projects fund's fund balance increased by \$7,005, primarily due to investment income received.

**Fort Bend County Municipal Utility District No. 26**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2019**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to tap connection and inspection fees and other income revenues, and professional fees and repairs and maintenance expenditures being greater than anticipated. In addition, capital outlay and tap connection expenditures incurred were not budgeted. The fund balance as of September 30, 2019, was expected to be \$1,498,208 and the actual end-of-year fund balance was \$918,548.

**Capital Assets and Related Debt**

**Capital Assets**

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

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2019</b>	<b>2018</b>
Land and improvements	\$ 814,371	\$ 718,147
Construction in progress	363,401	-
Water facilities	2,282,242	2,218,822
Wastewater facilities	2,428,851	1,638,566
Drainage facilities	3,073,449	2,417,455
	<hr/>	<hr/>
Total capital assets	<u>\$ 8,962,314</u>	<u>\$ 6,992,990</u>

During the current year, additions to capital assets were as follows:

Construction in progress related to wastewater collection system rehabilitation and repair	\$ 363,401
Water, wastewater and drainage facilities and sediment erosion control to serve Mustang Trails, Sections 1-3	1,603,002
Mustang Trails lift station	498,017
	<hr/>
Total additions to capital assets	<u>\$ 2,464,420</u>

**Debt**

The changes in the debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows.



**Fort Bend County Municipal Utility District No. 26**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2019**

Long-term debt payable, beginning of year	\$ 11,153,496
Increases in long-term debt	2,900,059
Decreases in long-term debt	<u>(1,042,701)</u>
Long-term debt payable, end of year	<u>\$ 13,010,854</u>

At September 30, 2019, the District had \$36,779,688 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "Baa2" from Moody's Investors Service. The Series 2016 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal.

**Due to Developer**

The developer of the District has constructed facilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$4,075,375. These amounts have been recorded in the financial statements as long-term liabilities.

**Other Relevant Factors**

**Relationship to the City of Missouri City**

Under existing Texas law, since the District lies wholly within the City of Missouri City (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be abolished by the City without the District's consent. If the District is abolished, the City must assume the District's assets and obligations (including the bonded indebtedness) within 90 days.

**Contingencies**

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$1,100,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Fort Bend County Municipal Utility District No. 26**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**September 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 223,480	\$ 56,242	\$ 64,139	\$ 343,861	\$ -	\$ 343,861
Short-term investments	1,147,981	2,455,959	306,510	3,910,450	-	3,910,450
Receivables:						
Property taxes	18,003	94,510	-	112,513	-	112,513
Service accounts	110,394	-	-	110,394	-	110,394
Accrued penalty and interest	-	-	-	-	61,748	61,748
Interfund receivable	-	883	-	883	(883)	-
Due from others	109	-	-	109	-	109
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	814,371	814,371
Construction in progress	-	-	-	-	363,401	363,401
Infrastructure	-	-	-	-	7,784,542	7,784,542
Total assets	1,499,967	2,607,594	370,649	4,478,210	9,023,179	13,501,389
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	0	0	0	0	176,571	176,571
Total assets and deferred outflows of resources	\$ 1,499,967	\$ 2,607,594	\$ 370,649	\$ 4,478,210	\$ 9,199,750	\$ 13,677,960

**Fort Bend County Municipal Utility District No. 26**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**September 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 299,256	\$ 34	\$ -	\$ 299,290	\$ -	\$ 299,290
Retainage payable	18,682	-	-	18,682	-	18,682
Accrued interest payable	-	-	-	-	19,532	19,532
Customer deposits	244,595	-	-	244,595	-	244,595
Interfund payable	883	-	-	883	(883)	-
Long-term liabilities:						
Due within one year	-	-	-	-	1,010,000	1,010,000
Due after one year	-	-	-	-	12,000,854	12,000,854
Total liabilities	563,416	34	0	563,450	13,029,503	13,592,953
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	18,003	94,510	0	112,513	(112,513)	0
<b>Fund Balances/Net Position</b>						
Fund balances:						
Restricted:						
Unlimited tax bonds	-	2,513,050	-	2,513,050	(2,513,050)	-
Water, sewer and drainage	-	-	370,649	370,649	(370,649)	-
Unassigned	918,548	-	-	918,548	(918,548)	-
Total fund balances	918,548	2,513,050	370,649	3,802,247	(3,802,247)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 1,499,967	\$ 2,607,594	\$ 370,649	\$ 4,478,210		
Net position:						
Net investment in capital assets					(3,890,651)	(3,890,651)
Restricted for debt service					2,649,776	2,649,776
Restricted for capital projects					370,649	370,649
Unrestricted					955,233	955,233
Total net position					\$ 85,007	\$ 85,007

**Fort Bend County Municipal Utility District No. 26**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended September 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 324,574	\$ 1,450,965	\$ -	\$ 1,775,539	\$ 1,198	\$ 1,776,737
Water service	376,652	-	-	376,652	-	376,652
Sewer service	363,553	-	-	363,553	-	363,553
Surface water conversion	208,683	-	-	208,683	-	208,683
Garbage service	290,560	-	-	290,560	-	290,560
Penalty and interest	38,585	32,687	-	71,272	3,388	74,660
Tap connection and inspection fees	166,125	-	-	166,125	-	166,125
Investment income	34,669	57,398	7,165	99,232	-	99,232
Other income	28,298	-	-	28,298	-	28,298
	<u>1,831,699</u>	<u>1,541,050</u>	<u>7,165</u>	<u>3,379,914</u>	<u>4,586</u>	<u>3,384,500</u>
Total revenues						
<b>Expenditures/Expenses</b>						
Service operations:						
Purchased services	135,683	-	-	135,683	-	135,683
Regional water fee	214,580	-	-	214,580	-	214,580
Professional fees	404,364	10,043	-	414,407	-	414,407
Contracted services	466,047	35,639	-	501,686	-	501,686
Utilities	61,455	-	-	61,455	-	61,455
Repairs and maintenance	623,787	-	-	623,787	-	623,787
Other expenditures	110,797	10,063	160	121,020	-	121,020
Tap connections	50,910	-	-	50,910	-	50,910
Capital outlay	363,401	-	-	363,401	(363,401)	-
Impact fees	-	-	-	-	799,040	799,040
Depreciation	-	-	-	-	439,542	439,542
Debt service:						
Principal retirement	-	975,000	-	975,000	(975,000)	-
Interest and fees	-	246,212	-	246,212	8,181	254,393
	<u>2,431,024</u>	<u>1,276,957</u>	<u>160</u>	<u>3,708,141</u>	<u>(91,638)</u>	<u>3,616,503</u>
Total expenditures/expenses						
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(599,325)	264,093	7,005	(328,227)	328,227	
<b>Change in Net Position</b>					(232,003)	(232,003)
<b>Fund Balances/Net Position</b>						
Beginning of year	1,517,873	2,248,957	363,644	4,130,474	-	317,010
End of year	<u>\$ 918,548</u>	<u>\$ 2,513,050</u>	<u>\$ 370,649</u>	<u>\$ 3,802,247</u>	<u>\$ 0</u>	<u>\$ 85,007</u>

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

Fort Bend County Municipal Utility District No. 26 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective June 28, 1978, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

#### ***Government-wide and Fund Financial Statements***

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, such as the provision of water, wastewater, drainage and other related services. 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 with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### ***Measurement Focus and Basis of Accounting***

#### **Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

#### **Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

### ***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### ***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis.

Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### ***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

### ***Use of Estimates***

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

### ***Investments and Investment Income***

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

### ***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.



# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2019, include collections during the current period or within 60 days of year-end related to the 2018 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2019, the 2018 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

### ***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

### ***Deferred Amount on Debt Refundings***

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

### ***Debt Issuance Costs***

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

### ***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds 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 debt service expenditures.

### ***Net Position/Fund Balances***

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

### ***Reconciliation of Government-wide and Fund Financial Statements***

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 8,962,314
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	112,513
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	61,748
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	176,571

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. \$ (19,532)

Long-term debt obligations are not due and payable in the current period and are not reported in the funds. (13,010,854)

Adjustment to fund balances to arrive at net position. \$ (3,717,240)

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances. \$ (328,227)

Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and impact fees exceeded capital outlay expenditures in the current year. (875,181)

Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position. 975,000

Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. 4,586

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 governmental funds. (8,181)

Change in net position of governmental activities. \$ (232,003)

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### **Note 2: Deposits, Investments and Investment Income**

#### ***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At September 30, 2019, none of the District's bank balances were exposed to custodial credit risk.

#### ***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At September 30, 2019, the District had the following investments and maturities.

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 3,910,450	\$ 3,910,450	\$ 0	\$ 0	\$ 0

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2019, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

### Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at September 30, 2019, as follows:

Carrying value:	
Deposits	\$ 343,861
Investments	3,910,450
Total	<u>\$ 4,254,311</u>

### Investment Income

Investment income of \$99,232 for the year ended September 30, 2019, consisted of interest income.

### Note 3: Capital Assets

A summary of changes in capital assets for the year ended September 30, 2019, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Retirements	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 718,147	\$ 151,778	\$ (55,554)	\$ 814,371
Construction in progress	-	363,401	-	363,401
Total capital assets, non-depreciable	<u>718,147</u>	<u>515,179</u>	<u>(55,554)</u>	<u>1,177,772</u>

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

September 30, 2019

Governmental Activities	Balances, Beginning of Year	Additions	Retirements	Balances, End of Year
Capital assets, depreciable:				
Water production and distribution facilities	\$ 5,190,890	\$ 245,810	\$ -	\$ 5,436,700
Wastewater collection and treatment facilities	4,275,894	928,484	-	5,204,378
Drainage facilities	4,557,978	774,947	-	5,332,925
Total capital assets, depreciable	14,024,762	1,949,241	0	15,974,003
Less accumulated depreciation:				
Water production and distribution facilities	(2,972,068)	(182,390)	-	(3,154,458)
Wastewater collection and treatment facilities	(2,637,328)	(138,199)	-	(2,775,527)
Drainage facilities	(2,140,523)	(118,953)	-	(2,259,476)
Total accumulated depreciation	(7,749,919)	(439,542)	0	(8,189,461)
Total governmental activities, net	\$ 6,992,990	\$ 2,024,878	\$ (55,554)	\$ 8,962,314

### Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 4,785,000	\$ -	\$ 340,000	\$ 4,445,000	\$ 350,000
Direct placement bonds	4,990,000		635,000	4,355,000	660,000
Add premiums on bonds	147,626	-	12,147	135,479	-
	9,922,626	0	987,147	8,935,479	1,010,000
Due to developer, construction	1,230,870	2,900,059	55,554	4,075,375	-
Total governmental activities long-term liabilities	\$ 11,153,496	\$ 2,900,059	\$ 1,042,701	\$ 13,010,854	\$ 1,010,000

# Fort Bend County Municipal Utility District No. 26

## Notes to Financial Statements

### September 30, 2019

#### **General Obligation Bonds**

	<b>Refunding Series 2014**</b>	<b>Refunding Series 2016</b>
Amounts outstanding, September 30, 2019	\$4,355,000	\$4,445,000
Interest rates	2.42%	2.00% to 3.50%
Maturity dates, serially beginning/ending	March 1, 2020/2025	March 1, 2020/2029
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	March 1, 2022	March 1, 2024

\*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

\*\*Direct placement bonds

#### **Annual Debt Service Requirements**

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation and direct placement bonds outstanding at September 30, 2019.

Year	General Obligation Bonds		Direct Placement Bonds		Total
	Principal	Interest	Principal	Interest	
2020	\$ 350,000	\$ 125,487	\$ 660,000	\$ 97,405	\$ 1,232,892
2021	365,000	116,512	690,000	81,070	1,252,582
2022	385,000	105,263	710,000	64,130	1,264,393
2023	380,000	92,837	740,000	46,585	1,259,422
2024	375,000	82,438	765,000	28,375	1,250,813
2025-2029	2,590,000	227,595	790,000	9,559	3,617,154
Total	<u>\$ 4,445,000</u>	<u>\$ 750,132</u>	<u>\$ 4,355,000</u>	<u>\$ 327,124</u>	<u>\$ 9,877,256</u>

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

Bonds voted	\$ 90,559,688*
Bonds sold	21,830,000
Refunding bonds voted	18,000,000
Refunding bond authorization used	9,063,869

\*Includes refunding authorization up to \$58,609,688, voted on November 6, 2018.

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### ***Due to Developer***

The developer of the District has constructed facilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$4,075,375. These amounts have been recorded in the financial statements as long-term liabilities.

### **Note 5: Significant Bond Order and Commission Requirements**

- A. 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. During the year ended September 30, 2019, the District levied an ad valorem debt service tax at the rate of \$0.6400 per \$100 of assessed valuation, which resulted in a tax levy of \$1,460,952 on the taxable valuation of \$228,273,750 for the 2018 tax year. The interest and principal requirements paid from the tax revenues were \$1,220,463.
- B. The Bond Orders state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry such insurance. At September 30, 2019, the District had real and personal property and boiler and machinery coverage in the amount of \$4,650,000 each, general liability insurance with an aggregate limit of \$3,000,000 and pollution liability coverage of \$1,000,000.

### **Note 6: Maintenance Taxes**

At an election held August 12, 1978, voters authorized a maintenance tax not to exceed \$0.15 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.1432 per \$100 of assessed valuation, which resulted in a tax levy of \$326,888 on the taxable valuation of \$228,273,750 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.



# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Financial Statements**

**September 30, 2019**

### **Note 7: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

### **Note 8: Agreements With Other Districts**

#### ***Wastewater Treatment***

The District has entered into an agreement with Thunderbird Utility District for additional wastewater treatment. In a prior year, the District acquired 90,000 gallons-per-day (gpd) permanent capacity in Thunderbird Utility District's wastewater treatment facility (the Plant) for \$585,000. During a prior year, the District purchased an additional 310,000 gpd permanent capacity for \$2,866,700. The District will pay Thunderbird Utility District a flat fee per month for each active connection. During the current year, the District paid \$135,683 in fees related to the agreement.

### **Note 9: Groundwater Reduction Plan Agreement**

The District is within the boundaries of the Fort Bend Subsidence District (the Subsidence District), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to an annual permit issued by the Subsidence District. In 2003, the Subsidence District adopted a district regulatory plan to reduce groundwater withdrawal through the conversion to surface water. The District has entered into a Groundwater Reduction Plan Agreement (GRPA) with the City of Missouri City (the City) in order to meet the Subsidence District's requirements. As a participant in the GRPA, the District has complied with all Subsidence District requirements for surface water conversion, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City in the future. During the current year, the District incurred fees totaling \$214,580 for groundwater withdrawal.

### **Note 10: Contingencies**

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$1,100,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

## **Required Supplementary Information**

**Fort Bend County Municipal Utility District No. 26**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended September 30, 2019**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 300,000	\$ 324,574	\$ 24,574
Water service	403,600	376,652	(26,948)
Sewer service	370,000	363,553	(6,447)
Surface water conversion	215,000	208,683	(6,317)
Garbage service	280,000	290,560	10,560
Penalty and interest	45,000	38,585	(6,415)
Tap connection and inspection fees	20,000	166,125	146,125
Investment income	35,000	34,669	(331)
Other income	25,000	28,298	3,298
	<u>1,693,600</u>	<u>1,831,699</u>	<u>138,099</u>
<b>Expenditures</b>			
Service operations:			
Purchased services	160,000	135,683	24,317
Regional water fee	220,000	214,580	5,420
Professional fees	252,500	404,364	(151,864)
Contracted services	525,500	466,047	59,453
Utilities	100,000	61,455	38,545
Repairs and maintenance	338,000	623,787	(285,787)
Other expenditures	117,265	110,797	6,468
Tap connections	-	50,910	(50,910)
Capital outlay	-	363,401	(363,401)
	<u>1,713,265</u>	<u>2,431,024</u>	<u>(717,759)</u>
<b>Deficiency of Revenues Over Expenditures</b>	(19,665)	(599,325)	(579,660)
<b>Fund Balance, Beginning of Year</b>	<u>1,517,873</u>	<u>1,517,873</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 1,498,208</u></u>	<u><u>\$ 918,548</u></u>	<u><u>\$ (579,660)</u></u>

# **Fort Bend County Municipal Utility District No. 26**

## **Notes to Required Supplementary Information**

**September 30, 2019**

### ***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2019.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Other Information**

**Fort Bend County Municipal Utility District No. 26**  
**Other Schedules Included Within This Report**  
**September 30, 2019**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 12-24
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

# Fort Bend County Municipal Utility District No. 26

## Schedule of Services and Rates

### Year Ended September 30, 2019

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> 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 1,000 Gallons Over Minimum	Usage Levels	
Water:	\$ 9.50	1,000	N	\$ 1.70	1,001 to	20,000
				\$ 2.25	20,001 to	No Limit
Wastewater:	\$ 10.00	1,000	N	\$ 1.70	1,001 to	20,000
				\$ 2.35	20,001 to	No Limit
Groundwater reduction plan fee:	\$ 1.89	1	N	\$ 1.89	1 to	No Limit

Does the District employ winter averaging for wastewater usage? Yes ☐ No ☒

Total charges per 10,000 gallons usage (including fees): Water \$ 43.70 Wastewater \$ 25.30

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC*
Unmetered	-	-	x1.0	-
≤ 3/4"	1,572	1,548	x1.0	1,548
1"	16	14	x2.5	35
1 1/2"	8	7	x5.0	35
2"	24	22	x8.0	176
3"	2	2	x15.0	30
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,622	1,593		1,824
Total wastewater	1,606	1,580	x1.0	1,580

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	120,692
Gallons billed to customers:	114,335
Water accountability ratio (gallons billed/gallons pumped):	94.73%

\*"ESFC" means equivalent single-family connections

**Fort Bend County Municipal Utility District No. 26**  
**Schedule of General Fund Expenditures**  
**Year Ended September 30, 2019**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	18,900	
Legal		107,519	
Engineering		277,945	
Financial advisor		-	404,364
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			135,683
<b>Regional Water Fee</b>			214,580
<b>Contracted Services</b>			
Bookkeeping		15,750	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		161,518	177,268
<b>Utilities</b>			61,455
<b>Repairs and Maintenance</b>			623,787
<b>Administrative Expenditures</b>			
Directors' fees		18,750	
Office supplies		19,004	
Insurance		18,594	
Other administrative expenditures		54,449	110,797
<b>Capital Outlay</b>			
Capitalized assets		363,401	
Expenditures not capitalized		-	363,401
<b>Tap Connection Expenditures</b>			50,910
<b>Solid Waste Disposal</b>			288,779
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			-
Total expenditures		\$	2,431,024



**Fort Bend County Municipal Utility District No. 26**  
**Schedule of Temporary Investments**  
**September 30, 2019**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
TexPool	2.14%	Demand	\$ 1,147,981	\$ -
<b>Debt Service Fund</b>				
TexPool	2.14%	Demand	2,455,959	-
<b>Capital Projects Fund</b>				
TexPool	2.14%	Demand	<u>306,510</u>	<u>-</u>
Totals			<u><u>\$ 3,910,450</u></u>	<u><u>\$ 0</u></u>

# Fort Bend County Municipal Utility District No. 26

## Analysis of Taxes Levied and Receivable

Year Ended September 30, 2019

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 17,381	\$ 93,934
Additions and corrections to prior years' taxes	<u>(1,692)</u>	<u>(9,411)</u>
Adjusted receivable, beginning of year	<u>15,689</u>	<u>84,523</u>
 <b>2018 Original Tax Levy</b>	 326,839	 1,460,732
Additions and corrections	<u>49</u>	<u>220</u>
Adjusted tax levy	<u>326,888</u>	<u>1,460,952</u>
Total to be accounted for	342,577	1,545,475
Tax collections: Current year	(319,781)	(1,429,190)
Prior years	<u>(4,793)</u>	<u>(21,775)</u>
Receivable, end of year	<u><u>\$ 18,003</u></u>	<u><u>\$ 94,510</u></u>
 <b>Receivable, by Years</b>		
2018	\$ 7,107	\$ 31,762
2017	3,224	14,531
2016	2,138	9,785
2015	1,645	7,566
2014	1,127	5,446
2013	642	4,497
2012	551	3,873
2011	480	3,374
2010	382	2,635
2009	358	2,624
2008	181	2,068
2007	168	2,244
2006	-	1,390
2005	-	2,385
2004	<u>-</u>	<u>330</u>
Receivable, end of year	<u><u>\$ 18,003</u></u>	<u><u>\$ 94,510</u></u>

**Fort Bend County Municipal Utility District No. 26**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended September 30, 2019**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Property Valuations</b>				
Land	\$ 46,891,670	\$ 44,512,621	\$ 42,761,710	\$ 42,762,030
Improvements	184,988,433	164,233,794	149,494,275	129,264,985
Personal property	8,656,160	10,210,702	9,559,020	7,938,600
Exemptions	<u>(12,262,513)</u>	<u>(11,164,971)</u>	<u>(10,276,984)</u>	<u>(7,065,935)</u>
Total property valuations	<u>\$ 228,273,750</u>	<u>\$ 207,792,146</u>	<u>\$ 191,538,021</u>	<u>\$ 172,899,680</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.6400	\$ 0.6568	\$ 0.6750	\$ 0.6900
Maintenance tax rates*	<u>0.1432</u>	<u>0.1457</u>	<u>0.1475</u>	<u>0.1500</u>
Total tax rates per \$100 valuation	<u>\$ 0.7832</u>	<u>\$ 0.8025</u>	<u>\$ 0.8225</u>	<u>\$ 0.8400</u>
<b>Tax Levy</b>	<u>\$ 1,787,840</u>	<u>\$ 1,667,532</u>	<u>\$ 1,575,400</u>	<u>\$ 1,452,356</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>	<u>98%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$0.15 on August 12, 1978

\*\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

**Fort Bend County Municipal Utility District No. 26**  
**Schedule of Long-term Debt Service Requirements by Years**  
**September 30, 2019**

Due During Fiscal Years Ending September 30	Refunding Series 2014		
	Principal Due March 1	Interest Due March 1, September 1	Total
2020	\$ 660,000	\$ 97,405	\$ 757,405
2021	690,000	81,070	771,070
2022	710,000	64,130	774,130
2023	740,000	46,585	786,585
2024	765,000	28,375	793,375
2025	790,000	9,559	799,559
Totals	<u>\$ 4,355,000</u>	<u>\$ 327,124</u>	<u>\$ 4,682,124</u>

**Fort Bend County Municipal Utility District No. 26**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2019**

Due During Fiscal Years Ending September 30	Refunding Series 2016		
	Principal Due March 1	Interest Due March 1, September 1	Total
2020	\$ 350,000	\$ 125,487	\$ 475,487
2021	365,000	116,512	481,512
2022	385,000	105,263	490,263
2023	380,000	92,837	472,837
2024	375,000	82,438	457,438
2025	370,000	74,756	444,756
2026	550,000	64,638	614,638
2027	550,000	48,825	598,825
2028	555,000	29,488	584,488
2029	565,000	9,888	574,888
Totals	<u>\$ 4,445,000</u>	<u>\$ 750,132</u>	<u>\$ 5,195,132</u>

**Fort Bend County Municipal Utility District No. 26**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2019**

Due During Fiscal Years Ending September 30	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 1,010,000	\$ 222,892	\$ 1,232,892
2021	1,055,000	197,582	1,252,582
2022	1,095,000	169,393	1,264,393
2023	1,120,000	139,422	1,259,422
2024	1,140,000	110,813	1,250,813
2025	1,160,000	84,315	1,244,315
2026	550,000	64,638	614,638
2027	550,000	48,825	598,825
2028	555,000	29,488	584,488
2029	565,000	9,888	574,888
Totals	<u>\$ 8,800,000</u>	<u>\$ 1,077,256</u>	<u>\$ 9,877,256</u>

**Fort Bend County Municipal Utility District No. 26**  
**Changes in Long-term Bonded Debt**  
**Year Ended September 30, 2019**

	<b>Bond Issues</b>		
	<b>Refunding Series 2014</b>	<b>Refunding Series 2016</b>	<b>Totals</b>
Interest rates	2.42%	2.00% to 3.50%	
Dates interest payable	March 1/ September 1	March 1/ September 1	
Maturity dates	March 1, 2020/2025	March 1, 2020/2029	
Bonds outstanding, beginning of current year	\$ 4,990,000	\$ 4,785,000	\$ 9,775,000
Retirements, principal	<u>635,000</u>	<u>340,000</u>	<u>975,000</u>
Bonds outstanding, end of current year	<u>\$ 4,355,000</u>	<u>\$ 4,445,000</u>	<u>\$ 8,800,000</u>
Interest paid during current year	<u>\$ 113,075</u>	<u>\$ 132,388</u>	<u>\$ 245,463</u>

Paying agent's name and address:

**Series 2014** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

**Series 2016** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 90,559,688 *	0	\$ 18,000,000
Amount issued	<u>\$ 21,830,000</u>	<u>0</u>	<u>\$ 9,063,869</u>
Remaining to be issued	<u>\$ 68,729,688</u>	<u>0</u>	<u>\$ 8,936,131</u>

Debt service fund cash and temporary investment balances as of September 30, 2019: \$ 2,512,201

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 987,726

\*Includes refunding authorization up to \$58,609,688, voted on November 6, 2018.

**Fort Bend County Municipal Utility District No. 26**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended September 30,**

	Amounts				
	2019	2018	2017	2016	2015
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 324,574	\$ 298,912	\$ 279,755	\$ 260,091	\$ 229,611
Water service	376,652	372,629	368,356	371,550	373,873
Sewer service	363,553	359,767	369,897	342,464	344,135
Surface water conversion	208,683	216,330	207,969	206,546	209,177
Garbage service	290,560	278,880	272,780	281,393	358,183
Penalty and interest	38,585	40,351	39,587	40,916	42,573
Tap connection and inspection fees	166,125	2,850	81,297	-	-
Investment income	34,669	27,050	5,402	2,531	479
Other income	28,298	34,007	9,261	16,387	12,560
Total revenues	<u>1,831,699</u>	<u>1,630,776</u>	<u>1,634,304</u>	<u>1,521,878</u>	<u>1,570,591</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	135,683	128,564	-	-	-
Regional water fee	214,580	217,912	198,084	196,677	203,278
Professional fees	404,364	396,767	362,592	333,443	138,599
Contracted services	466,047	468,370	444,038	469,974	541,285
Utilities	61,455	94,767	85,574	83,829	81,150
Repairs and maintenance	623,787	406,528	386,261	673,670	343,988
Other expenditures	110,797	96,447	115,130	110,910	90,719
Tap connections	50,910	-	43,704	-	-
Capital outlay	<u>363,401</u>	<u>71,976</u>	<u>48,899</u>	<u>56,579</u>	<u>26,197</u>
Total expenditures	<u>2,431,024</u>	<u>1,881,331</u>	<u>1,684,282</u>	<u>1,925,082</u>	<u>1,425,216</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(599,325)	(250,555)	(49,978)	(403,204)	145,375
<b>Other Financing Sources</b>					
Interfund transfers in	<u>-</u>	<u>1,164,198</u>	<u>-</u>	<u>201,669</u>	<u>132,100</u>
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	(599,325)	913,643	(49,978)	(201,535)	277,475
<b>Fund Balance, Beginning of Year</b>	<u>1,517,873</u>	<u>604,230</u>	<u>654,208</u>	<u>855,743</u>	<u>578,268</u>
<b>Fund Balance, End of Year</b>	<u>\$ 918,548</u>	<u>\$ 1,517,873</u>	<u>\$ 604,230</u>	<u>\$ 654,208</u>	<u>\$ 855,743</u>
<b>Total Active Retail Water Connections</b>	<u>1,593</u>	<u>1,547</u>	<u>1,553</u>	<u>1,502</u>	<u>1,494</u>
<b>Total Active Retail Wastewater Connections</b>	<u>1,580</u>	<u>1,532</u>	<u>1,526</u>	<u>1,487</u>	<u>1,493</u>



**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
17.7 %	18.3 %	17.1 %	17.1 %	14.6 %
20.6	22.9	22.6	24.4	23.8
19.9	22.1	22.6	22.5	22.0
11.4	13.3	12.7	13.6	13.3
15.9	17.1	16.7	18.5	22.8
2.1	2.4	2.4	2.7	2.7
9.0	0.2	5.0	-	-
1.9	1.6	0.3	0.1	0.0
1.5	2.1	0.6	1.1	0.8
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
7.4	7.9	-	-	-
11.7	13.4	12.1	12.9	12.9
22.1	24.3	22.2	21.9	8.8
25.4	28.7	27.2	30.9	34.5
3.4	5.8	5.2	5.5	5.2
35.1	24.9	23.6	44.3	21.7
6.1	5.9	7.0	7.3	5.9
1.7	-	2.7	-	-
19.8	4.4	3.0	3.7	1.7
<u>132.7</u>	<u>115.3</u>	<u>103.0</u>	<u>126.5</u>	<u>90.7</u>
<u><u>(32.7) %</u></u>	<u><u>(15.3) %</u></u>	<u><u>(3.0) %</u></u>	<u><u>(26.5) %</u></u>	<u><u>9.3 %</u></u>

**Fort Bend County Municipal Utility District No. 26**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended September 30,**

	Amounts				
	2019	2018	2017	2016	2015
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 1,450,965	\$ 1,345,637	\$ 1,282,588	\$ 1,201,137	\$ 1,113,201
Penalty and interest	32,687	16,019	25,190	31,660	22,228
Investment income	57,398	34,874	14,589	6,382	1,213
Total revenues	<u>1,541,050</u>	<u>1,396,530</u>	<u>1,322,367</u>	<u>1,239,179</u>	<u>1,136,642</u>
<b>Expenditures</b>					
Current:					
Professional fees	10,043	3,589	7,857	9,765	742
Contracted services	35,639	33,831	32,161	30,988	31,105
Other expenditures	10,063	12,521	8,338	5,681	11,069
Debt service:					
Principal retirement	975,000	950,000	910,000	840,000	805,000
Interest and fees	246,212	268,087	292,424	352,526	418,317
Debt issuance costs	-	-	-	198,432	-
Debt defeasance	-	-	-	4,000	-
Total expenditures	<u>1,276,957</u>	<u>1,268,028</u>	<u>1,250,780</u>	<u>1,441,392</u>	<u>1,266,233</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>264,093</u>	<u>128,502</u>	<u>71,587</u>	<u>(202,213)</u>	<u>(129,591)</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	-	-	-	5,155,000	-
Payments to escrow agent	-	-	-	(5,124,485)	-
Premium on capital appreciation bonds	-	-	-	176,449	-
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>206,964</u>	<u>0</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>264,093</u>	<u>128,502</u>	<u>71,587</u>	<u>4,751</u>	<u>(129,591)</u>
<b>Fund Balance, Beginning of Year</b>	<u>2,248,957</u>	<u>2,120,455</u>	<u>2,048,868</u>	<u>2,044,117</u>	<u>2,173,708</u>
<b>Fund Balance, End of Year</b>	<u>\$ 2,513,050</u>	<u>\$ 2,248,957</u>	<u>\$ 2,120,455</u>	<u>\$ 2,048,868</u>	<u>\$ 2,044,117</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
94.2 %	96.4 %	97.0 %	96.9 %	97.9 %
2.1	1.1	1.9	2.6	2.0
3.7	2.5	1.1	0.5	0.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.7	0.3	0.6	0.8	0.1
2.3	2.4	2.4	2.5	2.7
0.7	0.9	0.6	0.5	1.0
63.3	68.0	68.8	67.8	70.8
15.9	19.2	22.1	28.5	36.8
-	-	-	16.0	-
-	-	-	0.3	-
<u>82.9</u>	<u>90.8</u>	<u>94.5</u>	<u>116.4</u>	<u>111.4</u>
<u><u>17.1 %</u></u>	<u><u>9.2 %</u></u>	<u><u>5.5 %</u></u>	<u><u>(16.4) %</u></u>	<u><u>(11.4) %</u></u>

**Fort Bend County Municipal Utility District No. 26**  
**Board Members, Key Personnel and Consultants**  
**Year Ended September 30, 2019**

Complete District mailing address:	Fort Bend County Municipal Utility District No. 26 c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019
District business telephone number:	713.652.6500
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	July 16, 2019
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

<b>Board Members</b>	<b>Term of Office Elected &amp; Expires</b>	<b>Fees*</b>	<b>Expense Reimbursements</b>	<b>Title at Year-end</b>
Demonica Johnson	Elected 05/16- 05/20	\$ 5,550	\$ 5,800	President
Charles Benton	Elected 05/16- 05/20	6,000	8,282	Vice President
Kevin Wheeler	Appointed 06/17- 05/20	2,250	218	Secretary
Frederick Walker	Elected 05/18- 05/22	2,850	0	Assistant Secretary
Toxie Cockrell	Appointed 07/18- 05/22	2,100	0	Director

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Fort Bend County Municipal Utility District No. 26**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended September 30, 2019**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
BKD, LLP	11/12/85	\$ 18,900	Auditor
Claudia Redden & Associates, LLC	Prior to 10/01/82	23,171	Bookkeeper
Fort Bend Central Appraisal District	Legislative Action	12,761	Appraiser
Linebarger Goggan Blair & Sampson, LLP	04/19/95	10,043	Delinquent Tax Attorney
Masterson Advisors, LLC	05/16/18	0	Financial Advisor
Quail Valley Utility District	03/19/80	775,209	Operator
Saliger Engineering Corp.	10/11/88	422,109	Engineer
Smith, Murdaugh, Little & Bonham, L.L.P.	08/01/78	120,019	General Counsel
Utility Tax Service, LLC	02/02/05	27,220	Tax Assessor/ Collector
<b>Investment Officer</b>			
Charles Benton	08/16/17	N/A	Director