

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 6, 2020

This Preliminary Official Statement is subject to completion and amendment. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE LEGAL, VALID, AND BINDING OBLIGATIONS OF THE DISTRICT AND IN THE OPINION OF ORRICK, HERRINGTON & SUTCLIFFE, LLP, SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. SPECIAL TAX COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE “TAX MATTERS” HEREIN.

THE BONDS WILL BE DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—QUALIFIED TAX EXEMPT OBLIGATIONS.”

NEW ISSUE-Book-Entry Only

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

\$3,635,000*

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 21
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

The bonds described above (the “Bonds”) are obligations solely of Harris County Water Control and Improvement District No. 21 (the “District”) and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

Interest Accrues:

Current Interest Bonds — June 1, 2020

Premium Compound Interest Bonds — Date of Delivery

Due: September 1, as shown on inside cover

The Bonds consist of Current Interest Bonds and Premium Compound Interest Bonds as shown on the inside cover, which will be issued in fully registered form only. The Current Interest Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. Principal of the Current Interest Bonds will be payable at stated maturity or redemption. Interest on the Current Interest Bonds accrues from June 1, 2020, and is payable on September 1, 2020, and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Current Interest Bonds are subject to redemption prior to maturity as shown on the inside cover. The Premium Compound Interest Bonds will be issued in the denomination of \$5,000 maturity amounts, or integral multiples thereof, including both principal and interest. Interest on the Premium Compound Interest Bonds will accrue from the date of delivery and will be compounded semiannually on March 1 and September 1 of each year commencing on September 1, 2020. Compounded interest and principal on the Premium Compound Interest Bonds will be paid only at maturity. See “APPENDIX B—Accreted Values of Premium Compound Interest Bonds” for the accreted value thereof on the compounding date and at maturity. Interest on the Bonds accrues on the basis of a 360 day year comprised of twelve 30 day months.

The Bonds will be registered and delivered only 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 (as defined herein under “THE BONDS—Book-Entry-Only System”) of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. 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, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See “THE BONDS—Book-Entry-Only System.” The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas.

See Maturities, Principal Amounts, Interest Rates and Initial Reoffering Yields on the inside cover

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

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Baker Williams Matthiesen LLP, Bond Counsel, Houston, Texas, and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Special Tax Counsel. Certain legal matters will be passed on for the Underwriter by Allen Boone Humphries Robinson LLP Houston, Texas, Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about June 4, 2020.

RAYMOND JAMES

*Preliminary; subject to change.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$3,570,000 Current Interest Bonds*

<u>Due</u> <u>(September 1)</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>CUSIP</u> <u>Number (b)</u>	<u>Due</u> <u>(September 1)</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>CUSIP</u> <u>Number (b)</u>
2022	\$ 225,000				2029	\$ 260,000 (c)			
2023	235,000				2030	260,000 (c)			
2024	240,000				2031	265,000 (c)			
2025	240,000				2032	270,000 (c)			
2026	245,000				2033	275,000 (c)			
2027	250,000 (c)				2034	275,000 (c)			
2028	250,000 (c)				2035	280,000 (c)			

\$65,000 Premium Compound Interest Bonds*

<u>Due</u> <u>(September 1)</u>	<u>Original</u> <u>Principal</u> <u>Amount</u>	<u>Offering Price</u> <u>Per \$5,000</u> <u>Maturity Amount</u>	<u>Initial</u> <u>Reoffering</u> <u>Yield (a)</u>	<u>Total</u> <u>Payment at</u> <u>Maturity</u>	<u>Cusip</u> <u>Numbers (b)</u>
2021	\$65,000				

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest on the Current Interest Bonds from June 1, 2020 is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Current Interest Bonds maturing on or after September 1, 2027, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

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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, 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 the District, 15808 Avenue C, Channelview, Texas 77530 upon payment of the costs of duplication therefor.

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 Underwriter (as herein defined) and thereafter only as specified in “PREPARATION OF THE OFFICIAL STATEMENT—Updating the Official Statement.”

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by Raymond James & Associates, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$_____ (representing the principal amount of the Bonds, plus a premium on the Premium Compound Interest Bonds of \$_____, plus a net premium on the Current Interest Bonds of \$_____, less an Underwriter's discount of \$_____), plus accrued interest on the Current Interest Bonds to the date of delivery. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING."

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

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTBREAK (COVID-19)

General...

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “Investment Considerations- Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

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

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition or its ratings (see “MUNICIPAL BOND RATINGS AND MUNICIPAL BOND INSURANCE” herein). The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “RISK FACTORS—Infectious Disease Outbreak (COVID-19).”

THE DISTRICT

Description...

Harris County Water Control and Improvement District No. 21 (the “District”) is a political subdivision of the State of Texas and was created by the Texas State Board of Water Engineers (a predecessor of the Texas Commission on Environmental Quality) in 1950 to provide water and sanitary sewer service to the unincorporated community of Channelview, Texas. The District operates under the provisions of Chapters 49 and 51 of the Texas Water Code, as amended. See “THE DISTRICT.”

Location...

The District is located 14 miles east of the central downtown business district of the City of Houston and is located wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Channelview Independent School District. The District contains approximately 2,598 acres of land. See “THE DISTRICT.”

Status of Development...

The District is part of the unincorporated community of Channelview, Texas which has the appearance and characteristics of a small town. The District currently provides water and sewer service to approximately 3,082 single-family residences and to commercial and retail establishments including a hospital, hotels, restaurants, two banks, a CVS Pharmacy, a McDonald’s, Burger King, Whataburger, Wendy’s, Advance Auto Parts, AutoZone, and shopping centers and certain industrial complexes near the Houston Ship Channel.

Based upon the 2019 tax roll, the average taxable value of homes within the District is approximately \$109,439.

Hurricane Harvey...

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

To the best knowledge of the District, the District’s System (as defined herein) did not sustain any material damage and there was no interruption of water and sewer service. Further, the District did not receive any reports of homes or commercial improvements flooding as a result of Hurricane Harvey.

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

THE BONDS

Description...

\$3,635,000* Unlimited Tax Refunding Bonds, Series 2020, (the “Bonds”) are being issued as fully registered bonds pursuant to an order (the “Bond Order”) authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”). The Current Interest Bonds will be issued as fully registered bonds in the aggregate principal amount of \$3,570,000*. Interest on the Current Interest Bonds accrues from June 1, 2020, and is payable on September 1, 2020, and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. The Premium Compound Interest Bonds will be issued as fully registered bonds in the aggregate principal amount of \$5,000* in denominations which result in total amounts due at maturity equal to \$5,000 or integral multiples thereof (including both accreted principal and compounded interest). Interest on the Premium Compound Interest Bonds accrues from the date of delivery and is compounded on March 1 and September 1 of each year until maturity, commencing September 1, 2020. The Bonds mature on September 1 in each of the years and in the amounts shown on the inside cover hereof. See “THE BONDS” and “APPENDIX B—Accreted Values of Premium Compound Interest Bonds.”

Book-Entry Only...

The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of The Depository Trust Company, New York, New York (“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. 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.”

Redemption...

The Current Interest Bonds maturing on and after September 1, 2027 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

Use of Proceeds...

Proceeds from the sale of the Bonds and lawfully available debt service funds, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund \$3,635,000* principal amount of the Outstanding Bonds (as hereinafter defined) in order to achieve net savings in the District’s annual debt service expense. After issuance of the Bonds, \$11,840,000* principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”

*Preliminary; subject to change.

<i>Authority for Issuance...</i>	The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order (as hereinafter defined), Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, particularly Chapters 49 and 51 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, and City of Houston Ordinance No. 97-416. See “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Payment Record...</i>	The District has previously sold seven series of unlimited tax bonds or combination unlimited tax and revenue bonds and three series of unlimited tax refunding bonds, of which \$15,475,000 principal amount was outstanding as of April 1, 2020 (the “Outstanding Bonds”). See “FINANCIAL STATEMENT—Outstanding Bonds.” The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.
<i>Tax Matters...</i>	In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.
<i>Qualified Tax-Exempt Obligations...</i>	The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Municipal Bond Insurance and Municipal Bond Rating...</i>	Application has been made to S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) for an underlying rating on the Bonds, and S&P has assigned an underlying rating of “A” to the Bonds. Application has also been made to various municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the District at the District’s expense. The rating fee of S&P will be paid for by the District; payment of any other rating fee will be the responsibility of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”
<i>Bond Counsel...</i>	Baker Williams Matthiesen LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Special Tax Counsel...</i>	Orrick, Herrington & Sutcliffe LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “TAX MATTERS.”
<i>Underwriter’s Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Escrow Agent...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “PLAN OF FINANCING—Escrow Agreement” and “—Defeasance of Refunded Bonds.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

INVESTMENT CONSIDERATIONS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION

2019 Certified Taxable Assessed Valuation	\$537,650,158 (a)
Gross Direct Debt Outstanding	\$15,475,000 *(b)
Estimated Overlapping Debt	<u>37,512,165 (c)</u>
Gross Direct Debt and Estimated Overlapping Debt	\$52,987,165 *
Ratio of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation	2.88% *
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation	9.86% *
2019 Debt Service Tax Rate	\$0.366
2019 Maintenance Tax Rate	<u>0.000</u>
2019 Total Tax Rate	\$0.366
Average Annual Debt Service Requirement (2021-2035)	\$1,225,587 *(d)
Maximum Annual Debt Service Requirement (2021)	\$1,449,170 *(d)
Tax Rates Required to Pay Average Annual Debt Service (2021-2035) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation	\$0.24* (e)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation	\$0.29* (e)
Estimated Population	10,787 (f)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
(b) After issuance of the Bonds. See "FINANCIAL STATEMENT—Outstanding Bonds."
(c) See "ESTIMATED OVERLAPPING DEBT STATEMENT."
(d) See "DEBT SERVICE REQUIREMENTS."
(e) See "TAX DATA—Debt Service Tax," "—Tax Adequacy for Debt Service."
(f) Based upon 3,082 single family residences and 3.5 persons per occupied single-family residence.

PRELIMINARY OFFICIAL STATEMENT

\$3,635,000*

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 21 *(A political subdivision of the State of Texas located within Harris County)*

UNLIMITED TAX REFUNDING BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Water Control and Improvement District No. 21 (the “District”) of its \$3,635,000* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, particularly chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416 and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District, 15808 Avenue C, Channelview, Texas 77530, upon payment of the cost of duplication.

PLAN OF FINANCING

Purpose

The District currently has \$15,475,000 principal amount of bonds outstanding (the “Outstanding Bonds”). See “FINANCIAL STATEMENT—Outstanding Bonds.” The proceeds of the Bonds and lawfully available debt service funds, if any, are being used to refund a portion of the District’s original issue of \$5,000,000 Unlimited Tax Bonds, Series 2010 totaling \$3,635,000* (collectively, the “Refunded Bonds”) in order to reduce the District’s debt service expense and result in net present value savings. See “Refunded Bonds” herein. Such funds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” herein. A total of \$11,840,000* in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “FINANCIAL STATEMENT—Outstanding Bonds” and “—DEBT SERVICE REQUIREMENTS.”

*Preliminary; subject to change.

Refunded Bonds

The following table lists the principal amounts and maturity dates of the Refunded Bonds and the Redemption Dates on which the Refunded Bonds will be redeemed.

<u>Maturity Date</u> <u>September 1</u>	<u>Series</u> <u>2010*</u>
2021	\$ 175,000
2022	180,000
2023	190,000
2024	200,000
2025	205,000
2026	215,000
2027	225,000
2028	235,000
2029	250,000
2030	260,000
2031	270,000
2032	285,000
2033	300,000
2034	315,000
2035	330,000
	<u>\$ 3,635,000</u>

Redemption Date: September 1, 2020

The Refunded Bonds will be redeemed on the date shown above, the earliest redemption date allowable under the order authorizing the issuance of the Refunded Bonds.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, and lawfully available debt service funds, if any, will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds.....	\$ _____
Net Premium on the Current Interest Bonds	_____
Premium on the Premium Compound Interest Bonds.....	_____
Transfer from Debt Service Fund	_____
Total Sources of Funds.....	\$ _____

Uses of Funds:

Deposit to Escrow Fund.....	\$ _____
Issuance Expenses and Underwriters' Discount (a)	_____
Total Uses of Funds.....	\$ _____

(a) Includes municipal bond insurance premium.

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company N.A., Dallas, Texas, as escrow agent (the "Escrow Agent").

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to be dated as of the date of the Bond Purchase Agreement (defined herein), but effective on the date of delivery of the Bonds (expected to be June 4, 2020). The Bond Order further provides that from the proceeds of the sale of the Bonds, together with certain other lawfully available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and a portion of such funds will be used to purchase United States Treasury Obligations (the “Escrowed Securities”) scheduled to mature at such times and in such amounts as will be sufficient to pay, when due, the principal of and interest of the Refunded Bonds. At the time of delivery of the Bonds to the Underwriter, Public Finance Partners, LLC, will verify mathematical calculations to the effect that funds are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

Defeasance of Refunded Bonds

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

THE BONDS

Description

The Bonds will be dated June 1, 2020, and consist of Current Interest Bonds and Premium Compound Interest Bonds as shown on the inside cover hereof. Principal of the Current Interest Bonds is payable at the respective maturities thereof at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “Paying Agent/Registrar”, “Paying Agent”, or “Registrar”). Interest on the Current Interest Bonds accrues from June 1, 2020, and is payable on each March 1 and September 1, thereafter (each an “Interest Payment Date”), commencing September 1, 2020, until the earlier of maturity or prior redemption. Interest on the Premium Compound Interest Bonds will accrue from the date of initial delivery and will be compounded on March 1 and September 1 of each year until maturity, commencing September 1, 2020. Compounded interest and principal on the Premium Compound Interest Bonds will be paid only at maturity. The Premium Compound Interest Bonds will be issued in principal amounts that will mature in \$5,000 denominations or integral multiples thereof, including both principal and interest. See “APPENDIX B—Accreted Values of Premium Compound Interest Bonds” for the accreted value thereof on the compounding date and at maturity. The Current Interest Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds mature on September 1 in the amounts and years shown on the inside cover page of this Official Statement. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”) in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “—Book-Entry-Only System” herein. Interest calculations are based on a 360- day year comprised of twelve (12) thirty (30) day months.

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 S&P Global Ratings rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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.

Principal, premium, if any, interest payments and redemption proceeds 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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Registrar only upon presentation and surrender thereof to the Registrar or its principal payment office and such transfer or exchange shall be without expenses or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. A new Bond or Bonds will be delivered by the Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Registrar, or sent by the United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "THE BONDS—Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Method of Payment of Principal and Interest

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

Funds

The Bond Order confirms the establishment of the District's Bond Fund (the "Debt Service Fund"), which Debt Service Fund was created and established pursuant to the orders of the Board of Directors of the District authorizing the issuance of its previously issued Bonds. Accrued interest on the Bonds will be deposited from the proceeds of the sale of the Bonds into the Debt Service Fund. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Remaining Outstanding Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Remaining Outstanding Bonds and any of the District's duly authorized additional bonds payable in whole or in part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Redemption Provisions

The District reserves the right, at its option, to redeem the Current Interest Bonds maturing on or after September 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. The Premium Compound Interest Bonds are not subject to redemption prior to maturity.

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

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 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 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 are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice 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 by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; Chapter 1207 of the Texas Government Code, as amended; and City of Houston Ordinance No. 97-416.

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

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Commission, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT—General.” The District has no outstanding authorized but unissued bonds.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters, or the amount ultimately issued by the District. See “INVESTMENT CONSIDERATIONS—Future Debt.”

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District to be annexed whereby the qualified voters of the District to be annexed approve the proposed annexation. If the District is annexed, the City of Houston must assume the District’s assets and obligations (including the Bonds and the Remaining Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

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

Strategic Partnership

Under Chapter 43 of the Texas Water Code the District may enter into a strategic partnership agreement with the City of Houston wherein the District agrees to limited annexation by the City of the District for specific purposes. Such an agreement could include the imposition of certain sales and use taxes by the City on designated property within the District, the allocation of such revenue between the City and the District, and the provision of certain services by the City. The agreement may provide that the city is prohibited from a total annexation and dissolution of the District during the term of the Agreement. The District has not entered into any discussions with the City regarding such an agreement and no representation can be made regarding the likelihood of the District and the City entering into such an agreement in the future.

Remedies in Event of Default

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. 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.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which might 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.

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law.

THE DISTRICT

General

The District is a political subdivision of the State of Texas created by the Texas State Board of Water Engineers (a predecessor of the Texas Commission on Environmental Quality) in 1950. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 51 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. The City of Houston, within whose extraterritorial jurisdiction the District lies, imposes certain requirements on the District which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park facilities and roads; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City of Houston and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District contains approximately 2,598 acres of land. The District is located approximately 14 miles east of the central downtown business district of the City of Houston. The District, which is located wholly within the extraterritorial jurisdiction of the City of Houston and is within the boundaries of Channelview Independent School District.

Status of Development

The District is part of the unincorporated community of Channelview, Texas which has the appearance and characteristics of a small town. The District currently provides water and sewer service to approximately 3,082 single-family residences and to commercial and retail establishments including a hospital, hotels, restaurants, two banks, a CVS Pharmacy, a McDonald's, Burger King, Whataburger, Wendy's, Advance Auto Parts, AutoZone, and shopping centers and certain industrial complexes near the Houston Ship Channel. Based upon the 2019 tax roll, the average taxable value of homes within the District is approximately \$109,439.

Community Facilities

Major Employers: The community of Channelview includes commercial and retail establishments. The industries surrounding and adjacent to the Houston Ship Channel are large sources of employment for residents of the District. The District is located 14 miles east of the central downtown business district of the City of Houston. Access to all major employment centers within the Harris County area from the District is provided by Interstate Highway 10 to other major highways, thoroughfares, and communities.

Schools: The District is located within the Channelview Independent School District, which serves approximately 20 square miles in Harris County and operates a high school, junior high school, middle school, five elementary schools, and an alternative school.

Police and Fire Protection: Police protection is provided by the Harris County Constable Precinct No. 2 and fire protection is provided by the Harris County Emergency Services District No. 50 and the Channelview Volunteer Fire Department.

Shopping Centers: Neighborhood shopping facilities are located within the District, including such retail and service establishments as supermarkets, pharmacies, and dry cleaners. These facilities include Sheldon Shopping Center and several strip shopping centers. Establishments within the shopping centers include a large grocery store, department store, auto parts store, restaurants, and various other retail businesses.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held in May in even numbered years only. All of the Board members reside within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jimmy L. Smith	President	May 2023
Jimmy L. Ramsey	Vice President	May 2023
Wesley Hutchins	Secretary	May 2021
Pete Brady	Director	May 2021
R.L. McRae	Director	May 2021

District Management

The District provides its own utility system management, operating and bookkeeping services. The District employs the following individuals in the following executive capacities.

District General Manager: The District employs Mr. Ronny Daniels, who is responsible for operation of the District's water and wastewater system. Mr. Daniels has been employed by the District for 35 years.

Bookkeeper: The District employs Ms. Margaret Riojas as bookkeeper. Ms. Riojas has been employed by the District for 23 years.

In addition, the District employs 3 office employees, 5 licensed operators and 3 field service personnel.

District Consultants

The District contracts for certain necessary services as described below.

Bond Counsel and General Counsel: The District has engaged Baker Williams Matthiesen LLP, Houston, Texas, as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in its capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Special Tax Counsel: Orrick, Herrington & Sutcliffe LLP serves as special tax counsel to the District. The fees to be paid Special Tax Counsel are contingent upon the sale and delivery of the Bonds.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audit is filed with the TCEQ. The District's financial statements for the year ended July 31, 2019, were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2019, financial statements.

Engineer: The District's engineer is ARKK Engineers, LLC.

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Utility Tax Service, LLC (the "Tax Assessor/Collector") has been engaged by the District to serve in this capacity.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Withdrawal of ground water and the issuance of water well permits is subject to the regulatory authority of the Harris-Galveston Coastal Subsidence District where applicable (see "Water Supply" and "Subsidence District Requirements" below). Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System.

Water Supply

Approximately 20% to 50% of the water supply for the District is currently provided through a ground water system consisting of two water wells with 2,300 gallons per minute ("gpm") of collective capacity, three ground water storage tanks with a collective capacity of 3,000,000 gallons, two elevated storage tanks with a collective capacity of 700,000 gallons, and booster pumps with a collective capacity of 2,750 gpm. The District has emergency water supply interconnects with Harris County Water Control and Improvement District Nos. 6, 47 and 84. The District has also entered into an agreement with North Channel Water Authority (the "Authority") whereby the Authority provides surface water to the District through the Authority's surface water conveyance system. See "North Channel Water Authority." Approximately 50% to 80% of the water supply for the District is provided by such surface water. According to the Engineer, the existing water supply facilities and the purchased surface water provide sufficient capacity to serve the District.

Wastewater Treatment

Wastewater treatment service is provided to the residents within the District by a 2,500,000 gallons per day ("gpd") wastewater treatment plant owned and operated by the District. According to the Engineer, the wastewater treatment plant contains sufficient capacity to serve the District.

North Channel Water Authority

The North Channel Water Authority (the "Authority") is a conservation and reclamation district and political subdivision of the State of Texas. The Authority is located in eastern Harris County and encompasses various districts and other entities, including the District, in an area north of the Houston Ship Channel. The Authority was created for the purpose of preparing, implementing, and financing a plan to provide water distribution facilities to substantially convert an area in eastern Harris County from ground water to surface water as required by the Harris-Galveston Coastal Subsidence District. The amount that the Authority charges the District for groundwater pumped and surface water supplied is calculated by the Authority's engineer and varies monthly based upon price components and usage. These rates are subject to future increases.

The Authority issued \$7,670,000 in principal amount of revenue bonds in 1993 for the capital costs of a portion of the system that includes the District. The District has a contractual obligation for its pro-rata portion of 27.4849%, or \$2,108,093, of the bond issue. The Authority refinanced its Series 1993 bonds in 2003 and also defeased a portion of the bonds in 2005, which reduced the District's contractual obligation. The source of payment for the District's contractual obligation is from the revenue of the District's water system. During the fiscal year ending 2015, the Authority redeemed the bonds, which eliminated the District's contractual obligation to the Authority.

Flood Protection

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" or (1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rainstorm of such intensity to statistically have one percent chance of occurring in any given year. Generally, 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 meet all applicable standards.

According to the Engineer, portions of the District are within the 100-year flood plain according to the Federal Emergency Management Agency's Digital Flood Insurance Rate Maps for Harris County. These areas within the floodplain are generally adjacent to existing drainage channels and waterfront areas. The District has no information whether any existing residential or commercial structures has a lowest floor elevation below the 100-year floodplain. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

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

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
11/04/2008	Water and Sewer	\$10,000,000	\$10,000,000 (a)	\$-0-

(a) Includes the Bonds.

FINANCIAL STATEMENT

2019 Certified Taxable Assessed Valuation.....\$537,650,158 (a)

District Debt:

Outstanding Bonds (as of April 1, 2020)..... \$15,475,000
 Less: The Refunded Bonds..... 3,635,000*
 Plus: The Bonds..... 3,635,000*
 Gross Debt Outstanding (after issuance of the Bonds)..... \$15,475,000* (b)

Ratio of Gross Direct Debt to:

2019 Certified Taxable Assessed Valuation 2.88% *

Area of District—2,598 acres
 Estimated 2020 Population—10,787 (c)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”) See “TAXING PROCEDURES.”
 (b) After the issuance of the Bonds. See “Outstanding Bonds” herein.
 (c) Based upon 3,082 single family residences and 3.5 persons per single-family residence.

Cash and Investment Balances (Unaudited as of March 31, 2020)

General Fund	Cash and Temporary Investments	\$4,173,340
Capital Projects Fund	Cash and Temporary Investments	\$3,533,109
Debt Service Fund	Cash and Temporary Investments	\$2,553,625 (a)

- (a) Approximately \$72,000* will be applied towards the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular balance in the Debt Service Fund.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District’s goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the District portfolio.

Outstanding Bonds

The following table lists the original principal amount and the current principal balance of the Outstanding Bonds as of April 1, 2020, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds*	Remaining Outstanding Bonds*
2010	\$ 5,000,000	\$ 3,805,000	\$ 3,635,000	\$ 170,000
2013	5,000,000	4,875,000	-	4,875,000
2014 (a)	4,330,000	2,470,000	-	2,470,000
2016	5,000,000	4,325,000	-	4,325,000
Total	\$ 19,330,000	\$ 15,475,000	\$ 3,635,000	\$ 11,840,000
The Bonds				<u>3,635,000 *</u>
The Bonds and Remaining Outstanding Bonds				<u>\$ 15,475,000 *</u>

- (a) Unlimited tax refunding bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,885,182,125	2/29/2020	0.10%	\$ 1,885,182
Harris County Flood Control District.....	83,075,000	2/29/2020	0.10%	83,075
Harris County Department of Education.....	6,320,000	2/29/2020	0.10%	6,320
Harris County Hospital District.....	55,005,000	2/29/2020	0.10%	55,005
Port of Houston Authority.....	572,569,397	2/29/2020	0.10%	572,569
Channelview Independent School District.....	192,545,000	2/29/2020	15.96%	30,730,182
San Jacinto Community College District.....	480,440,414	2/29/2020	0.87%	4,179,832
Total Estimated Overlapping Debt.....				\$ 37,512,165
The District.....	15,475,000 (a)	Current	100.00%	15,475,000 *
Total Direct and Estimated Overlapping Debt.....				\$ 52,987,165 *

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$537,650,158..... 9.68%*

(a) After issuance of the Bonds.

Overlapping Taxes

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

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

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.617000
Channelview ISD.....	1.357000
San Jacinto CCD.....	<u>0.178000</u>
Total Overlapping Tax Rate.....	\$ 2.15200
The District.....	<u>0.36600</u>
Total Tax Rate.....	\$ 2.51800

TAX DATA

Debt Service Tax

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

Maintenance Tax

No maintenance tax has been approved by voters within the District.

Historical Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$ 0.366	\$ 0.366	\$ 0.366	\$ 0.366	\$ 0.366
Maintenance and Operations	-	-	-	-	-
Total	\$ 0.366	\$ 0.366	\$ 0.366	\$ 0.366	\$ 0.366

Tax Exemptions

As discussed in the section titled “TAXING PROCEDURES,” certain property in the District may be exempt from taxation by the District. For tax year 2020, the District has granted a \$60,000 exemption for persons who are disabled or 65 years of age or older.

Additional Penalties

The District has contracted with an attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax 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 Property Tax Code.

Historical Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of March 31, 2020 (a)	
				Amount	Percent
2015	\$ 374,871,850	\$ 0.366	\$ 1,372,031	\$ 1,342,073	97.82%
2016	403,440,285	0.366	1,476,591	1,460,270	98.89%
2017	437,237,216	0.366	1,600,288	1,572,647	98.27%
2018	478,196,596	0.366	1,750,200	1,704,058	97.36%
2019	537,650,158	0.366	1,967,800	1,748,484	88.85%

(a) Unaudited.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation." The following represents the composition of property comprising the 2017 through 2019 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2019 Certified Taxable Assessed Valuation	2018 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation
Land	\$ 211,264,753	\$ 181,959,801	\$ 148,317,057
Improvements	255,602,866	237,853,124	230,224,542
Personal Property	134,298,629	119,607,525	119,583,699
Exemptions	(63,516,090)	(61,223,854)	(60,888,082)
Total	<u>\$ 537,650,158</u>	<u>\$ 478,196,596</u>	<u>\$ 437,237,216</u>

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2019 Certified Taxable Assessed Valuation, which reflects ownership at January 1, 2019.

Taxpayer	Type of Property	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
TapcoEnpro LLC	Land, Improvements & Personal Property	\$ 22,128,619	4.12%
Ally Bank	Personal Property	16,930,932	3.15%
Marquette Transportation Company	Personal Property	15,048,183	2.80%
Sheldon Forest Retail Partners LLC	Land & Improvements	9,657,816	1.80%
Ashland Hospitality	Land & Improvements	7,369,290	1.37%
Ballard Exploration Co Inc.	Land, Improvements & Personal Property	7,259,724	1.35%
Centerpoint Energy	Land & Personal Property	5,128,927	0.95%
Shanaya Hospitality Holdings Group LLC	Land & Improvements	5,104,550	0.95%
San Jac Marine	Personal Property	4,849,969	0.90%
Worldwide Machinery	Personal Property	4,848,020	0.90%
Total		<u>\$ 98,326,030</u>	<u>18.29%</u>

Tax Adequacy for Debt Service

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

Average Annual Debt Service Requirement (2021-2035).....	\$1,225,587*
\$0.24* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$1,225,842*
Maximum Annual Debt Service Requirement (2021).....	\$1,449,170*
\$0.29* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$1,481,226*

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approves it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse’s residence homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to the subsequent homesteads. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by April 30. For tax year 2019, the District has granted a \$60,000 exemption for persons who are disabled or 65 years of age or older. See “TAX DATA—Exemptions.”

Freeport Goods and Goods-in-Transit Exemptions: A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior

applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods- in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (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.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. 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, if the person requests an installment agreement 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 a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

Rollback of Operation and Maintenance Tax Rate

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

SB 2 classifies, certain special purpose districts, including the District, 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—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

The Effect of FIRREA on Tax Collections of the District

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

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

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

WATER AND SEWER OPERATIONS

The Remaining Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Remaining Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Remaining Outstanding Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the fiscal years ending July 31, 2015 through July 31, 2019. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further information.

	Fiscal Year Ended July 31				
	2019	2018	2017	2016	2015
Revenues					
Water Service	\$ 3,137,434	\$ 3,192,841	\$ 2,917,586	\$ 2,897,134	\$ 2,739,288
Sewer Service	869,078	902,742	820,413	785,767	745,614
Penalty and Interest	59,123	62,221	66,354	67,651	63,517
Tap Connection and Inspection Fees	23,074	89,033	144,250	64,355	62,959
Miscellaneous	23,396	30,735	29,968	22,115	22,419
Investment Revenues	76,202	53,616	20,589	7,966	1,121
Total Revenues	\$ 4,188,307	\$ 4,331,188	\$ 3,999,160	\$ 3,844,988	\$ 3,634,918
Expenditures					
Personnel	\$ 1,428,868	\$ 1,374,663	\$ 1,337,001	\$ 1,305,511	\$ 1,197,003
Purchased Services	894,405	887,132	848,179	770,701	694,944
Professional Fees	69,008	59,034	60,542	51,104	57,975
Contracted Services	79,875	149,825	84,872	92,218	82,209
Repairs and Maintenance	817,832	788,938	809,449	589,800	635,163
Utilities	175,411	175,628	177,394	195,416	187,584
Administrative	151,214	159,888	150,723	144,875	118,880
Other	44,200	53,280	54,125	40,475	55,437
Capital Outlay	267,017	365,753	-	-	111,311
Total Expenditures	\$ 3,927,830	\$ 4,014,141	\$ 3,522,285	\$ 3,190,100	\$ 3,140,506
Revenues Over (Under) Expenditures	\$ 260,477	\$ 317,047	\$ 476,875	\$ 654,888	\$ 494,412
Other Sources (Interfund Transfer)	\$ 53,199	\$ (272,327)	\$ (202,914)	\$ (165,934)	\$ (86,622)
Other Sources (Capital Contribution)	\$ -	\$ 25,738	\$ -	\$ 236,475	\$ 12,687
Fund Balance (Beginning of Year)	\$ 3,971,392	\$ 3,900,934	\$ 3,626,973	\$ 2,901,544	\$ 2,481,067
Fund Balance (End of Year)	\$ 4,285,068	\$ 3,971,392	\$ 3,900,934	\$ 3,626,973	\$ 2,901,544

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the estimated debt service on the Bonds (\$3,635,000* principal amount).

Year	Outstanding Bonds Debt Service Requirements	(a)	Less: Debt Service on the Refunded Bonds*	Plus: Debt Service on the Bonds*			Total Debt Service Requirements*
				Principal	Interest	Total	
2020	\$ 1,242,337		\$ 182,862	\$ -	\$ 17,850	\$ 17,850	\$ 1,077,325
2021	1,505,632		357,862	65,000	236,400	301,400	1,449,170
2022	1,475,695		355,617	225,000	71,400	296,400	1,416,478
2023	1,449,550		357,805	235,000	66,900	301,900	1,393,645
2024	1,422,357		359,274	240,000	62,200	302,200	1,365,284
2025	1,398,462		354,994	240,000	57,400	297,400	1,340,869
2026	1,373,848		355,379	245,000	52,600	297,600	1,316,069
2027	1,347,834		354,866	250,000	47,700	297,700	1,290,669
2028	1,318,794		353,638	250,000	42,700	292,700	1,257,856
2029	1,318,708		356,677	260,000	37,700	297,700	1,259,731
2030	1,286,733		353,827	260,000	32,500	292,500	1,225,406
2031	1,253,489		350,333	265,000	27,300	292,300	1,195,456
2032	1,223,935		351,185	270,000	22,000	292,000	1,164,750
2033	1,192,796		351,108	275,000	16,600	291,600	1,133,288
2034	860,713		350,088	275,000	11,100	286,100	796,725
2035	840,765		347,952	280,000	5,600	285,600	778,413
Total	\$ 20,511,646		\$ 5,493,462	\$ 3,635,000	\$ 807,950	\$ 4,442,950	\$ 19,461,134

(a) Excludes the District's March 1, 2020 debt service payment in the amount of \$287,337.

Maximum Annual Debt Service Requirement (2021).....\$1,449,170*
Average Annual Debt Service Requirements (2021-2035)\$1,225,587*

INVESTMENT CONSIDERATIONS

General

The Bonds and the Outstanding Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds and the Outstanding Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—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.

Infectious Disease Outbreak (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-16 on April 17, 2020, which, among other things, requires Texans to minimize in-person contact with people who are not in the same household unless such people are involved in essential services or essential daily activities and closes schools to in-person classroom attendance by students through the 2019-2020 school year, unless such order is otherwise extended, modified, rescinded, or superseded by the Governor. In addition, Harris County, within which the District is located, has issued a “shelter in place” order for most citizens except when engaged in specified essential businesses and government functions. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

The District continues to monitor the spread of COVID-19 and follow the directives of local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition or its ratings (see “MUNICIPAL BOND RATINGS AND MUNICIPAL BOND INSURANCE” herein). The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

Recent Extreme Weather Events; Hurricane Harvey

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

To the best knowledge of the District, the District’s System (as defined herein) did not sustain any material damage and there was no interruption of water and sewer service. Further, the District did not receive any reports of homes or commercial improvements flooding as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under 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 "TAXING PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District reserves in the Bond Order the right to issue additional bonds for facilities which may be authorized at future elections within the District. The issuance of such future 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 (other than refunding bonds) issued by the District, however, must be approved by voters of the District, the Commission, the Attorney General of Texas and the Board of Directors of the District. The District has no authorized but unissued bonds for facilities. See "THE BONDS—Issuance of Additional Debt."

Environmental Regulations

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

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

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

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

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ has developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB Area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB Area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

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

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 also obtain a permit from the United States Army Corps of Engineers (“USACE”) if operations of the District require that wetlands be filled, dredged, or otherwise altered.

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

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

On January 23, 2020, the EPA and USACE finalized a replacement definition of “waters of the United States.” The definition outlines the categories of waters that would be considered “waters of the United States,” including traditional navigable waters, perennial and intermittent tributaries to those waters, certain ditches, certain lakes, ponds and impoundments, and wetlands adjacent to jurisdictional waters. The 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; farm and stock watering ponds; stormwater control features; and waste treatment systems. The new rule will become effective 60 days after publication in the Federal Register, which has not yet occurred.

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.

Marketability

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

Continuing Compliance with Certain Covenants

The Bond Order contains 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.”

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 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 Underwriter 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.

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.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including 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 Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, 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 will also furnish the approving legal opinion of Baker Williams Matthiesen LLP, Houston, Texas, 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 enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, against all taxable property within the District. The District also will furnish the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See “TAX MATTERS” below.

The legal fees to be paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and therefore such fees are contingent upon the sale and delivery of the Bonds.

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

Legal Review

In its capacity as Bond Counsel, Baker Williams Matthiesen LLP, has reviewed the information appearing in this Official Statement under the captioned sections “PLAN OF FINANCING—Escrow Agreement,” and “—Defeasance of Refunded Bonds” (but only insofar as such section relates to the legal opinion of Bond Counsel), “THE BONDS,” (other than information under “—Book-Entry-Only System”) “THE DISTRICT—General” and “MANAGEMENT OF THE DISTRICT—Bond Counsel and General Counsel,” “TAXING PROCEDURES,” “LEGAL MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (other than information under “—Compliance With Prior Undertakings”) solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this OFFICIAL STATEMENT, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax- exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax- exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax- exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Qualified Tax-Exempt Obligations

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

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

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

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

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

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

NO MATERIAL ADVERSE CHANGE

The obligations of the Underwriter to take and pay for the Bonds, and 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 subsequent to the date of sale from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT, as it may have been supplemented or amended through the date of the sale.

NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President and Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice has been filed or is pending or threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

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

Application has also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the District and at the District's expense. The rating fees of S&P will be paid by the District; any other rating fees associated with the insurance will be the responsibility of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT have been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District 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, orders, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. 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 DISTRICT," "THE SYSTEM"—ARKK Engineers, LLC, "THE BONDS" and "LEGAL MATTERS—Legal Opinions" (insofar as such section relates to the legal opinion of Bond Counsel and Special Tax Counsel)—Baker Williams Matthiesen LLP and Orrick, Herrington & Sutcliffe LLP, as applicable; "TAX MATTERS"—Orrick, Herrington & Sutcliffe LLP; "FINANCIAL STATEMENT" and "TAX DATA"—Harris County Appraisal District, Utility Tax Service, LLC and the Municipal Advisory Council.

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. Each consultant has agreed to the use of information provided by such firms.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the system and, in particular that information included in the sections entitled "THE DISTRICT," "THE SYSTEM" has been provided by ARKK Engineers, LLC, Consulting Engineers, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Auditor: The District's financial statements for the year ended July 31, 2019, were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2019, financial statements.

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 Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board in its official capacity and reliance upon the experts listed above, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL STATEMENT," "TAX DATA," "WATER AND SEWER OPERATIONS," and "DEBT SERVICE REQUIREMENTS" and in APPENDIX A (the District's Annual Financial Report and Supplemental Schedules). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2020. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided.

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 information and operating data which is customarily prepared by the District 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 July 31. Accordingly, it must provide updated information by January 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other 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 other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other 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. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. 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 updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Water Control and Improvement District No. 21 as of the date shown on the cover page.

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

APPENDIX A

**Independent Auditor's Report and Financial Statements of the District
for the year ended July 31, 2019**

**HARRIS COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 21**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

July 31, 2019

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Harris County Water Control Improvement District No. 21
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Water Control Improvement District No. 21, as of and for the year ended July 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 principles 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 to provide a basis for our audit opinions.

***Board of Directors
Harris County Water Control Improvement District No. 21
Harris County, Texas***

Opinion

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 Harris County Water Control Improvement District No. 21, as of July 31, 2019, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

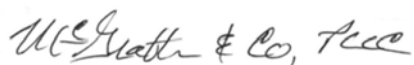
Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Houston, Texas
December 30, 2019

Management's Discussion and Analysis

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***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

Using this Annual Report

Within this section of the financial report of Harris County Water Control Improvement District No. 21 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended July 31, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at July 31, 2019, was \$18,098,865. A comparative summary of the District's overall financial position, as of July 31, 2019 and 2018, is as follows:

	2019	2018
Current and other assets	\$ 11,755,382	\$ 11,423,183
Capital assets	23,613,495	23,460,774
Total assets	35,368,877	34,883,957
 Total deferred outflows of resources	 45,104	 52,621
 Current liabilities	 2,012,879	 1,794,711
Long-term liabilities	15,302,237	16,226,273
Total liabilities	17,315,116	18,020,984
 Net position		
Net investment in capital assets	11,185,865	10,567,816
Restricted	2,686,314	2,426,476
Unrestricted	4,226,686	3,921,302
Total net position	\$ 18,098,865	\$ 16,915,594

***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

The total net position of the District increased during the current fiscal year by \$1,183,271. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2019	2018
Revenues		
Property taxes, penalties and interest	\$ 1,878,277	\$ 1,682,648
Water and sewer service	4,006,512	4,095,583
Capital grants	510,847	481,012
Other	264,171	277,335
Total revenues	<u>6,659,807</u>	<u>6,536,578</u>
Expenses		
Current service operations	4,058,080	3,778,687
Interest and fees	620,332	648,146
Depreciation	798,124	782,730
Total expenses	<u>5,476,536</u>	<u>5,209,563</u>
Change in net position before other items	1,183,271	1,327,015
Other items		
Insurance proceeds		13,325
Gain on disposal of asset		12,413
		<u>25,738</u>
Change in net position	1,183,271	1,352,753
Net position, beginning of year	<u>16,915,594</u>	<u>15,562,841</u>
Net position, end of year	<u><u>\$ 18,098,865</u></u>	<u><u>\$ 16,915,594</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of July 31, 2019, were \$10,477,030, which consists of \$4,285,067 in the General Fund, \$2,536,994 in the Debt Service Fund, \$3,764,503 in the Capital Projects Fund, and negative \$109,534 in the Special Revenue Fund.

General Fund

A comparative summary of the General Fund's financial position as of July 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	<u>\$ 4,893,179</u>	<u>\$ 4,479,132</u>
Total liabilities	\$ 608,112	\$ 507,741
Total fund balance	<u>4,285,067</u>	<u>3,971,391</u>
Total liabilities and fund balance	<u><u>\$ 4,893,179</u></u>	<u><u>\$ 4,479,132</u></u>

***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	\$ 4,188,307	\$ 4,331,188
Total expenditures	(3,927,830)	(4,014,141)
Revenues over expenditures	260,477	317,047
Other changes in fund balance	53,199	(246,589)
Net change in fund balance	\$ 313,676	\$ 70,458

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from the provision of water and sewer services to customers within the District. This revenue is dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.

Other changes in fund balance during the current year and prior year include transfers to the Special Revenue Fund for the District's share of capital projects partially financed by Community Development Block Grants.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of July 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	\$ 2,939,610	\$ 2,690,708
Total deferred inflows	\$ 402,616	\$ 342,000
Total fund balance	2,536,994	2,348,708
Total deferred inflows and fund balance	\$ 2,939,610	\$ 2,690,708

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	\$ 1,804,304	\$ 1,676,402
Total expenditures	(1,616,018)	(1,684,596)
Revenues over/(under) expenditures	188,286	(8,194)
Other changes in fund balance		22,240
Net change in fund balance	\$ 188,286	\$ 14,046

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service

***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

requirements resulted in a change in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

In the previous fiscal year, the District transferred surplus bond proceeds from the Capital Projects Fund for debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of July 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	<u>\$ 3,805,595</u>	<u>\$ 4,210,694</u>
Total liabilities	\$ 41,092	\$ -
Total fund balance	<u>3,764,503</u>	<u>4,210,694</u>
Total liabilities and fund balance	<u>\$ 3,805,595</u>	<u>\$ 4,210,694</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	\$ 95,730	\$ 63,468
Total expenditures	<u>(402,628)</u>	<u>(304,047)</u>
Revenues under expenditures	(306,898)	(240,579)
Other changes in fund balance	<u>(139,293)</u>	<u>(22,240)</u>
Net change in fund balance	<u>\$ (446,191)</u>	<u>\$ (262,819)</u>

The District has had significant capital asset activity in the last two years, which was financed with proceeds from the issuance of bonds issued in prior years. In the previous fiscal year, the District also transferred surplus bond proceeds from the Series 2010 bonds to the Debt Service Fund as required by the Texas Water Development Board.

Special Revenue Fund

The Special Revenue Fund is used to record transactions related to Community Development Block Grants awarded by Harris County for the rehabilitation of District facilities. Since the District's participation in these grant programs is based on the District's needs coinciding with the availability of funds from the County, there will be considerable variances in financial data from year to year.

***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

A comparative summary of the Special Revenue Fund's financial position as of July 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	<u>\$ 116,998</u>	<u>\$ 42,649</u>
Total liabilities	\$ 116,997	\$ 42,578
Total deferred inflows	109,535	
Total fund balance	<u>(109,534)</u>	<u>71</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 116,998</u>	<u>\$ 42,649</u>

A comparative summary of activities for the Special Revenue Fund's current and prior fiscal year is as follows

	2019	2018
Total revenues	\$ 401,313	\$ 481,012
Total expenditures	<u>(597,012)</u>	<u>(753,339)</u>
Revenues under expenditures	(195,699)	(272,327)
Other changes in fund balance	86,094	272,327
Net change in fund balance	<u>\$ (109,605)</u>	<u>\$ -</u>

Expenditures relate to the construction of the water supply and fire protection improvement projects. The District receives reimbursements based on costs and the grant agreement. The District's share of costs (leverage) is recorded as transfers from the General Fund.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$235,676 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019

Capital Assets

Capital assets held by the District at July 31, 2019 and 2018 are summarized as follows:

	2019	2018
Capital assets not being depreciated		
Land and improvements	\$ 427,577	\$ 427,577
Construction in progress	258,131	
	<u>685,708</u>	<u>427,577</u>
Capital assets being depreciated		
Infrastructure	37,584,983	36,892,269
Buildings	372,607	372,607
Equipment	316,235	316,235
	<u>38,273,825</u>	<u>37,581,111</u>
Less accumulated depreciation		
Infrastructure	(14,888,545)	(14,121,845)
Buildings	(193,753)	(186,301)
Equipment	(263,740)	(239,768)
	<u>(15,346,038)</u>	<u>(14,547,914)</u>
Depreciable capital assets, net	<u>22,927,787</u>	<u>23,033,197</u>
Capital assets, net	<u><u>\$ 23,613,495</u></u>	<u><u>\$ 23,460,774</u></u>

Capital asset additions during the current year include the water supply and fire protection improvements project. The District's construction in progress is for the construction of the infiltration and inflow reduction project.

Long-Term Debt

At July 31, 2019 and 2018, the District had total bonded debt outstanding as shown below:

Series	2019	2018
2010	3,970,000	4,125,000
2013	4,900,000	4,925,000
2014 Refunding	2,990,000	3,515,000
2016	4,550,000	4,775,000
	<u><u>\$ 16,410,000</u></u>	<u><u>\$ 17,340,000</u></u>

At July 31, 2019, the District has no additional authority to issue bonds for water and sewer facilities.

***Harris County Water Control Improvement District No. 21
Management's Discussion and Analysis
July 31, 2019***

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from water/sewer services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2019 Actual</u>	<u>2020 Budget</u>
Total revenues	\$ 4,188,307	\$ 4,397,200
Total expenditures	<u>(3,927,830)</u>	<u>(4,397,200)</u>
Revenues over expenditures	260,477	
Other changes in fund balance	<u>53,199</u>	<u></u>
Net change in fund balance	313,676	
Beginning fund balance	<u>3,971,391</u>	<u>4,285,067</u>
Ending fund balance	<u>\$ 4,285,067</u>	<u>\$ 4,285,067</u>

Property Taxes

The District's property tax base increased approximately \$32,084,000 for the 2019 tax year from \$484,659,259 to \$516,743,561. The District has an additional \$21,359,018 in uncertified values. For the 2019 tax year, the District levied a debt service tax rate of \$0.366 per \$100 of assessed value. This is the same rate levied for the 2018 tax year.

Basic Financial Statements

Harris County Water Control Improvement District No. 21
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Assets					
Cash	\$ 277,374	\$ 127,391	\$ -	\$ 227,133	\$ 631,898
Investments	3,622,664	2,409,601	3,977,695		10,009,960
Taxes receivable, net		402,618			402,618
Customer service receivables, net	328,109				328,109
Internal balances	593,724		(172,129)	(421,595)	
Other receivables			29		29
Due from other governments				311,460	311,460
Operating reserve - North Channel Water Authority	71,308				71,308
Capital assets not being depreciated					
Capital assets, net					
Total Assets	<u>\$ 4,893,179</u>	<u>\$ 2,939,610</u>	<u>\$ 3,805,595</u>	<u>\$ 116,998</u>	<u>\$ 11,755,382</u>
Deferred Outflows of Resources					
Deferred difference on refunding					
Liabilities					
Accounts payable	\$ 174,874	\$ -	\$ 30,472	\$ 116,997	\$ 322,343
Salaries payable	68,639				68,639
Customer deposits	364,599				364,599
Retainage payable			10,620		10,620
Accrued interest payable					
Compensated absences payable					
Due within one year					
Long-term debt					
Due within one year					
Due after one year					
Total Liabilities	<u>608,112</u>	<u></u>	<u>41,092</u>	<u>116,997</u>	<u>766,201</u>
Deferred Inflows of Resources					
Deferred property taxes		402,616			402,616
Deferred capital grants				109,535	109,535
Fund Balances/Net Position					
Fund Balances					
Nonspendable	71,308				71,308
Restricted		2,536,994	3,764,503		6,301,497
Unassigned	4,213,759			(109,534)	4,104,225
Total Fund Balances	<u>4,285,067</u>	<u>2,536,994</u>	<u>3,764,503</u>	<u>(109,534)</u>	<u>10,477,030</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,893,179</u>	<u>\$ 2,939,610</u>	<u>\$ 3,805,595</u>	<u>\$ 116,998</u>	<u>\$ 11,755,382</u>
Net Position					
Net investment in capital assets					
Restricted for debt service					
Unrestricted					
Total Net Position					
See notes to basic financial statements.					

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ -	\$ 631,898
	10,009,960
	402,618
	328,109
	29
	311,460
	71,308
685,708	685,708
<u>22,927,787</u>	<u>22,927,787</u>
<u>23,613,495</u>	<u>35,368,877</u>
<u>45,104</u>	<u>45,104</u>
	322,343
	68,639
	364,599
	10,620
253,296	253,296
58,382	58,382
935,000	935,000
<u>15,302,237</u>	<u>15,302,237</u>
<u>16,548,915</u>	<u>17,315,116</u>
(402,616)	
<u>(109,535)</u>	
(71,308)	
(6,301,497)	
<u>(4,104,225)</u>	
<u>(10,477,030)</u>	
11,185,865	11,185,865
2,686,314	2,686,314
<u>4,226,686</u>	<u>4,226,686</u>
<u>\$ 18,098,865</u>	<u>\$ 18,098,865</u>

Harris County Water Control Improvement District No. 21
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Revenues					
Water service	\$ 3,137,434	\$ -	\$ -	\$ -	\$ 3,137,434
Sewer service	869,078				869,078
Property taxes		1,726,860			1,726,860
Penalties and interest	59,123	31,675			90,798
Tap connection and inspection	23,074				23,074
Capital grants				401,313	401,313
Miscellaneous	23,396	6,620			30,016
Investment earnings	76,202	39,149	95,730		211,081
Total Revenues	<u>4,188,307</u>	<u>1,804,304</u>	<u>95,730</u>	<u>401,313</u>	<u>6,489,654</u>
Expenditures/Expenses					
Current service operations					
Personnel	1,428,868				1,428,868
Purchased services	894,405				894,405
Professional fees	69,008				69,008
Contracted services	79,875	59,503			139,378
Repairs and maintenance	817,832		315,785		1,133,617
Utilities	175,411				175,411
Administrative	151,214	13,728			164,942
Other	44,200		29		44,229
Capital outlay	267,017		86,814	597,012	950,843
Debt service					
Principal		930,000			930,000
Interest and fees		612,787			612,787
Depreciation					
Total Expenditures/Expenses	<u>3,927,830</u>	<u>1,616,018</u>	<u>402,628</u>	<u>597,012</u>	<u>6,543,488</u>
Revenues Over/(Under)					
Expenditures	260,477	188,286	(306,898)	(195,699)	(53,834)
Other Financing Sources/(Uses)					
Internal transfers	<u>53,199</u>		<u>(139,293)</u>	<u>86,094</u>	
Net Change in Fund Balances	313,676	188,286	(446,191)	(109,605)	(53,834)
Change in Net Position					
Fund Balance/Net Position					
Beginning of the year	<u>3,971,391</u>	<u>2,348,708</u>	<u>4,210,694</u>	<u>71</u>	<u>10,530,864</u>
End of the year	<u>\$ 4,285,067</u>	<u>\$ 2,536,994</u>	<u>\$ 3,764,503</u>	<u>\$ (109,534)</u>	<u>\$ 10,477,030</u>

See notes to basic financial statements.

Adjustments	Statement of Activities
\$ -	\$ 3,137,434
	869,078
39,938	1,766,798
20,681	111,479
	23,074
109,534	510,847
	30,016
	211,081
<u>170,153</u>	<u>6,659,807</u>
8,222	1,437,090
	894,405
	69,008
	139,378
	1,133,617
	175,411
	164,942
	44,229
(950,843)	
(930,000)	
7,545	620,332
<u>798,124</u>	<u>798,124</u>
<u>(1,066,952)</u>	<u>5,476,536</u>
1,237,105	
53,834	
1,183,271	1,183,271
<u>6,384,730</u>	<u>16,915,594</u>
<u>\$ 7,621,835</u>	<u>\$ 18,098,865</u>

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Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Water Control Improvement District No. 21 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the State Board of Water Engineers, statutory predecessor to the Texas Commission on Environmental Quality, dated May 22, 1950, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on May 22, 1950 and the first bonds were sold on August 12, 1950.

The District’s primary activities include construction, maintenance and operation of water and sanitary sewer facilities. The District employs its own personnel to operate and manage the affairs of the District. The District has no pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has four governmental funds, which are all considered major funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal source of revenue is water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.
- The Special Revenue Fund is used to account for the expenditure of Community Development Block Grants received from Harris County for improving the District's water and sanitary sewer systems.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At July 31, 2019, allowances of \$78,674 and \$61,545 were provided for possible uncollectible property taxes and water/sewer accounts, respectively.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water and wastewater facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	45 years
Buildings	50 years
Equipment	5-10 years

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable and capital grants receivable that are not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of operating reserves paid to North Channel Water Authority.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund and deficit balances in other funds.

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

Compensated Absences

Compensated absences, which include vacation and sick leave, are earned by employees. The rate at which an employee earns benefits will vary depending upon their employment status and years employed with the District. Permanent employees with 1-7 years of service are granted 2 weeks of vacation time. Employees with 8-14 years of service are granted 3 weeks of vacation time. Employees with over 15 years of service are granted 4 weeks of vacation time. An employee shall be paid for any accumulated vacation upon termination of employment. Employees earn 2 days per month sick leave upon hire after a 90 day probation period, of which credit is retroactively given. A maximum of 400 hours may be accumulated and may be carried over from year to year. An employee forfeits all earned sick leave time upon any type of employment termination.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables and the useful lives and impairment of capital assets. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds	\$ 10,477,030
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 38,959,533	
Less accumulated depreciation	<u>(15,346,038)</u>	
Change due to capital assets		23,613,495

The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the *Statement of Net Position* and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.

45,104

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:

Bonds payable, net	(16,237,237)	
Interest payable on bonds	<u>(253,296)</u>	
Change due to long-term debt		(16,490,533)

Liabilities for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities at the fund

(58,382)

Receivables that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and, therefore, are deferred in the funds.

Property taxes receivable, net	255,394	
Penalty and interest receivable	147,222	
Capital grants	<u>109,535</u>	
Change due to property taxes		512,151

Total net position - governmental activities		<u><u>\$ 18,098,865</u></u>
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Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities

Net change in fund balances - total governmental funds \$ (53,834)

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference consists of:

Property taxes and related penalties and interest	\$ 60,619	
Capital grants	<u>109,534</u>	170,153

Compensated absences are treated differently between fund level statements and government-wide statements. The difference is for the change in compensated absences payable. (8,222)

Governmental funds report capital outlays for construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	950,843	
Depreciation expense	<u>(798,124)</u>	152,719

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Principal payments	930,000	
Interest expense accrual	<u>(7,545)</u>	922,455

Change in net position of governmental activities	<u>\$ 1,183,271</u>
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Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Use of Surplus Funds

During the current year, the District utilized a portion of available surplus funds in the amount of \$455,078 from the Series 2016 Bonds, under the provisions of TCEQ Rules Chapter 293.83(c)(3), to reimburse the General Fund for costs associated with the maintenance and repairs to the District's wastewater treatment plant facility and wastewater collection system.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 3 – Deposits and Investments (continued)

Investments (continued)

As of July 31, 2019, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 3,622,664		
	Debt Service	2,409,601		
	Capital Projects	3,977,695		
		<u>\$ 10,009,960</u>	AAAm	35 days

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at July 31, 2019, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 421,595	Amounts advanced by the General Fund to provide interim financing for capital projects reimbursable from Federal grants.
General Fund	Capital Projects Fund	172,129	Suplus bond proceeds released for repairs and maintenance of District facilities

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

A summary of internal transfers for the current fiscal year is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Special Revenue Fund	\$ 86,094	The District's required leverage on Federal grants
Capital Projects Fund	General Fund	139,293	Surplus bond proceeds used for repairs and maintenance paid by the General Fund in previous fiscal

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended July 31, 2019, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 427,577	\$ -	\$ 427,577
Construction in progress		258,131	258,131
	<u>427,577</u>	<u>258,131</u>	<u>685,708</u>
Capital assets being depreciated			
Infrastructure	36,892,269	692,714	37,584,983
Buildings	372,607		372,607
Equipment	316,235		316,235
	<u>37,581,111</u>	<u>692,714</u>	<u>38,273,825</u>
Less accumulated depreciation			
Infrastructure	(14,121,845)	(766,700)	(14,888,545)
Buildings	(186,301)	(7,452)	(193,753)
Equipment	(239,768)	(23,972)	(263,740)
	<u>(14,547,914)</u>	<u>(798,124)</u>	<u>(15,346,038)</u>
Subtotal depreciable capital assets, net	<u>23,033,197</u>	<u>(105,410)</u>	<u>22,927,787</u>
Capital assets, net	<u>\$ 23,460,774</u>	<u>\$ 152,721</u>	<u>\$ 23,613,495</u>

Depreciation expense for the current year was \$798,124.

Note 6 – Compensated Absences

As of July 31, 2019, a liability has been recorded for earned but unused vacation leave in the *Statement of Net Assets*. The District does not record a liability for unused sick leave, because employees are not compensated for unused sick leave upon termination of employment. A summary of changes in compensated absences for the year ended July 31, 2019 is as follows:

Beginning balance	\$ 50,160
Current year change	<u>8,222</u>
Ending balance	<u>\$ 58,382</u>

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 16,410,000
Unamortized discounts	<u>(172,763)</u>
	<u><u>\$ 16,237,237</u></u>
Due within one year	<u><u>\$ 935,000</u></u>

The District's bonds payable at July 31, 2019, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2010	\$ 3,970,000	\$ 5,000,000	1.59% - 5.44%	September 1, 2012/2035	September 1, March 1	September 1, 2020
2013	4,900,000	5,000,000	2.00% - 4.25%	September 1, 2015/2033	September 1, March 1	September 1, 2021
2014 Refunding	2,990,000	4,330,000	2.34%	September 1, 2015/2024	September 1, March 1	September 1, 2023
2016	4,550,000	5,000,000		September 1, 2017/2035	September 1, March 1	September 1, 2023
	<u><u>\$ 16,410,000</u></u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At July 31, 2019, the District has no remaining authorization to issues bonds for water and sanitary sewer facilities.

The change in the District's long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 17,340,000
Bonds retired	<u>(930,000)</u>
Bonds payable, end of year	<u><u>\$ 16,410,000</u></u>

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 7 – Long-Term Debt (continued)

As of July 31, 2019, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2020	\$ 935,000	\$ 587,293	\$ 1,522,293
2021	955,000	562,652	1,517,652
2022	955,000	538,162	1,493,162
2023	950,000	512,621	1,462,621
2024	950,000	485,953	1,435,953
2025	950,000	457,912	1,407,912
2026	955,000	426,156	1,381,156
2027	965,000	390,842	1,355,842
2028	975,000	353,315	1,328,315
2029	985,000	313,752	1,298,752
2030	1,025,000	272,721	1,297,721
2031	1,035,000	230,111	1,265,111
2032	1,045,000	186,212	1,231,212
2033	1,060,000	140,865	1,200,865
2034	1,075,000	94,253	1,169,253
2035	790,000	53,238	843,238
2036	805,000	17,881	822,881
	<u>\$ 16,410,000</u>	<u>\$ 5,623,939</u>	<u>\$ 22,033,939</u>

Note 8 – Property Taxes

The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2019 fiscal year was financed through the 2018 tax levy, pursuant to which the District levied property taxes of \$0.366 per \$100 of assessed value, all of which was allocated to debt service. The resulting tax levy was \$1,773,853 on the adjusted taxable value of \$484,659,259.

Harris County Water Control Improvement District No. 21
Notes to Basic Financial Statements
July 31, 2019

Note 8 – Property Taxes (continued)

Net property taxes receivable, at July 31, 2019, consisted of the following:

Current year taxes receivable	\$ 99,883
Prior years taxes receivable	234,187
Allowance of uncollectable accounts	<u>(78,674)</u>
	255,396
Penalty and interest receivable	<u>147,222</u>
Net property taxes receivable	<u><u>\$ 402,618</u></u>

Note 9 – North Channel Water Authority

The District is within the boundaries of the North Channel Water Authority (the “Authority”), which was created by the Texas Legislature. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Coastal Subsidence District, which regulates groundwater withdrawal. The District’s share of the operating costs is based on metered volume calculated by the Authority’s engineer. The District is billed for groundwater and surface water costs which is calculated based on price components and usage, which varies monthly. During the current year, the District recognized \$894,405 in expenditures related to purchased water.

Note 10 – Federal Grants

On January 24, 2018, the District was conditionally awarded a CDBG grant in the amount of \$750,000 from Harris County for additional water supply and fire protection improvements. The District’s leverage on this grant is \$369,929. The project was completed during the current year, with \$597,012 in total project costs, of which \$127,466 was the District’s responsibility and \$469,546 was reimbursed with grant revenues

Note 11 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Harris County Water Control Improvement District No. 21
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended July 31, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 3,220,000	\$ 3,137,434	\$ (82,566)
Sewer service	906,000	869,078	(36,922)
Penalties and interest	65,000	59,123	(5,877)
Tap connection and inspection	48,400	23,074	(25,326)
Miscellaneous	11,600	23,396	11,796
Investment earnings	50,000	76,202	26,202
Total Revenues	4,301,000	4,188,307	(112,693)
Expenditures			
Current service operations			
Personnel	1,403,471	1,428,868	(25,397)
Purchased services	964,500	894,405	70,095
Professional fees	65,100	69,008	(3,908)
Contracted services	112,000	79,875	32,125
Repairs and maintenance	873,100	817,832	55,268
Utilities	188,900	175,411	13,489
Administrative	162,200	151,214	10,986
Other	28,800	44,200	(15,400)
Capital outlay	424,929	267,017	157,912
Total Expenditures	4,223,000	3,927,830	295,170
Revenues Over Expenditures	78,000	260,477	182,477
Other Financing Uses			
Internal transfers		53,199	53,199
Net Change in Fund Balance	78,000	313,676	235,676
Fund Balance			
Beginning of the year	3,971,391	3,971,391	
End of the year	<u>\$ 4,049,391</u>	<u>\$ 4,285,067</u>	<u>\$ 235,676</u>

Harris County Water Control Improvement District No. 21
Notes to Required Supplementary Information
July 31, 2019

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Harris County Water Control Improvement District No. 21

TSI-1. Services and Rates

July 31, 2019

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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	Usage Levels		
In-District Users	Water: \$ 21.50	3,000	N	\$ 11.65	3,001	to	10,000
				\$ 11.70	10,001	to	15,000
				\$ 11.75	15,001	to	20,000
				\$ 11.80	20,001	to	25,000
				\$ 11.85	25,001	to	30,000
				\$ 11.95	30,001	to	50,000
				\$ 12.05	50,001	to	100,000
				\$ 12.15	100,001	to	500,000
				\$ 12.25	500,001	to	1,000,000
				\$ 12.35	1,000,001	to	no limit
				\$ 12.55	3,001	to	10,000
Out-of-District Users	Water: \$ 27.00	3,000	N	\$ 12.60	10,001	to	15,000
				\$ 12.65	15,001	to	20,000
				\$ 12.70	20,001	to	25,000
				\$ 12.75	25,001	to	30,000
				\$ 12.85	30,001	to	50,000
				\$ 12.95	50,001	to	100,000
				\$ 13.05	100,001	to	500,000
				\$ 13.15	500,001	to	1,000,000
				\$ 13.25	1,000,001	to	no limit
	Wastewater: \$ 7.00	3,000	N	\$ 4.20	3,001	to	no limit
						to	
	Surcharge: N/A						

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

Total charges per 10,000 gallons usage (in district): Water \$ 103.05 Wastewater \$ 36.40

See accompanying auditor's report.

Harris County Water Control Improvement District No. 21
TSI-1. Services and Rates
July 31, 2019

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
less than 3/4"	<u>2,869</u>	<u>2,314</u>	x 1.0	<u>2,314</u>
1"	<u>57</u>	<u>45</u>	x 2.5	<u>113</u>
1.5"	<u>22</u>	<u>20</u>	x 5.0	<u>100</u>
2"	<u>139</u>	<u>124</u>	x 8.0	<u>992</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	<u>3</u>	<u>3</u>	x 25.0	<u>75</u>
6"	<u>5</u>	<u>5</u>	x 50.0	<u>250</u>
8"			x 80.0	
10"			x 115.0	
Total Water	<u>3,096</u>	<u>2,512</u>		<u>3,859</u>
Total Wastewater	<u>2,488</u>	<u>2,102</u>	x 1.0	<u>2,102</u>

See accompanying auditor's report.

Harris County Water Control Improvement District No. 21
TSI-1. Services and Rates
July 31, 2019

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
(You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>367,091,610</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>289,533,300</u>	(Gallons billed / Gallons pumped)
		<u>78.87%</u>

4. Standby Fees (authorized only under TWC Section 49.231):
(You may omit this information if your district does not levy standby fees)

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

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
otherwise this information may be omitted):

Is the District located entirely within one county? Yes ☒ No ☐

County(ies) in which the District is located: Harris County

Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which the District is located: _____

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes ☐ No ☒

If Yes, by whom? _____

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-2 General Fund Expenditures
For the Year Ended July 31, 2019

Personnel	<u>\$ 1,428,868</u>
Purchased services	<u>894,405</u>
Professional fees	
Legal	30,045
Audit	22,500
Engineering	<u>16,463</u>
	<u>69,008</u>
Contracted services	
Meter readers	36,757
Sludge removal	<u>43,118</u>
	<u>79,875</u>
Repairs and maintenance	<u>817,832</u>
Utilities	<u>175,411</u>
Administrative	
Directors fees	9,750
Printing and office supplies	26,325
Insurance	50,438
Other	<u>64,701</u>
	<u>151,214</u>
Other	<u>44,200</u>
Capital outlay	<u>267,017</u>
Total expenditures	<u><u>\$ 3,927,830</u></u>

Number of persons employed by the District: 14 Full-time

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-3. Investments
July 31, 2019

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
TexPool	Variable	N/A	\$ 2,907,525
TexPool	Variable	N/A	715,139
			<u>3,622,664</u>
Debt Service			
TexPool	Variable	N/A	<u>2,409,601</u>
Capital Projects			
TexPool	Variable	N/A	321
TexPool	Variable	N/A	3,977,374
			<u>3,977,695</u>
Total - All Funds			<u><u>\$ 10,009,960</u></u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-4. Taxes Levied and Receivable
July 31, 2019

	Debt Service Taxes			
Taxes Receivable, Beginning of Year	\$	215,457		
Adjustments to prior year tax levy		(7,283)		
Adjusted Receivable		208,174		
2018 Original Tax Levy		1,442,222		
Adjustments		331,631		
Adjusted Tax Levy		1,773,853		
Total to be accounted for		1,982,027		
Tax collections:				
Current year		1,673,970		
Prior years		52,661		
Total Collections		1,726,631		
Taxes Receivable, End of Year	\$	255,396		
Taxes Receivable, By Years				
2018	\$	99,883		
2017		30,431		
2016		18,609		
2015 and prior		106,473		
Taxes Receivable, End of Year	\$	255,396		
	2018	2017	2016	2015
Property Valuations:				
Land	\$182,342,408	\$148,375,604	\$128,378,441	\$ 106,489,634
Improvements	238,786,996	230,238,699	221,477,908	213,027,673
Personal Property	124,658,678	119,596,966	117,125,027	110,592,851
Exemptions	(61,128,823)	(60,810,459)	(63,182,443)	(56,361,675)
Total Property Valuations	\$484,659,259	\$437,400,810	\$403,798,933	\$ 373,748,483
Tax Rates per \$100 Valuation:				
Debt service tax rates	\$ 0.366	\$ 0.366	\$ 0.366	\$ 0.366
Adjusted Tax Levy:	\$ 1,773,853	\$ 1,600,887	\$ 1,477,904	\$ 1,367,919
Percentage of Taxes Collected to Taxes Levied *	94.37%	98.10%	98.74%	98.04%

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

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-5. Long-Term Debt Service Requirements
Series 2010--by Years
July 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2020	\$ 165,000	\$ 192,099	\$ 357,099
2021	170,000	186,041	356,041
2022	175,000	179,239	354,239
2023	180,000	171,710	351,710
2024	190,000	163,539	353,539
2025	200,000	154,634	354,634
2026	205,000	145,186	350,186
2027	215,000	135,122	350,122
2028	225,000	124,252	349,252
2029	235,000	112,657	347,657
2030	250,000	100,251	350,251
2031	260,000	87,079	347,079
2032	270,000	73,258	343,258
2033	285,000	58,646	343,646
2034	300,000	43,098	343,098
2035	315,000	26,520	341,520
2036	330,000	8,976	338,976
	<u>\$ 3,970,000</u>	<u>\$ 1,962,307</u>	<u>\$ 5,932,307</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
July 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2020	\$ 25,000	\$ 191,812	\$ 216,812
2021	50,000	190,906	240,906
2022	50,000	189,593	239,593
2023	50,000	188,062	238,062
2024	50,000	186,375	236,375
2025	50,000	184,657	234,657
2026	500,000	175,032	675,032
2027	500,000	157,282	657,282
2028	500,000	138,282	638,282
2029	500,000	118,282	618,282
2030	525,000	97,782	622,782
2031	525,000	76,782	601,782
2032	525,000	55,454	580,454
2033	525,000	33,469	558,469
2034	525,000	11,156	536,156
	<u>\$ 4,900,000</u>	<u>\$ 1,994,926</u>	<u>\$ 6,894,926</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-5. Long-Term Debt Service Requirements
Series 2014 Refunding--by Years
July 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2020	\$ 520,000	\$ 63,882	\$ 583,882
2021	510,000	51,830	561,830
2022	505,000	39,955	544,955
2023	495,000	28,255	523,255
2024	485,000	16,789	501,789
2025	475,000	5,558	480,558
	<u>\$ 2,990,000</u>	<u>\$ 206,269</u>	<u>\$ 3,196,269</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
July 31, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 225,000	\$ 139,500	\$ 364,500
2021	225,000	133,875	358,875
2022	225,000	129,375	354,375
2023	225,000	124,594	349,594
2024	225,000	119,250	344,250
2025	225,000	113,063	338,063
2026	250,000	105,938	355,938
2027	250,000	98,438	348,438
2028	250,000	90,781	340,781
2029	250,000	82,813	332,813
2030	250,000	74,688	324,688
2031	250,000	66,250	316,250
2032	250,000	57,500	307,500
2033	250,000	48,750	298,750
2034	250,000	39,999	289,999
2035	475,000	26,718	501,718
2036	475,000	8,905	483,905
	<u>\$ 4,550,000</u>	<u>\$ 1,460,437</u>	<u>\$ 6,010,437</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
July 31, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 935,000	\$ 587,293	\$ 1,522,293
2021	955,000	562,652	1,517,652
2022	955,000	538,162	1,493,162
2023	950,000	512,621	1,462,621
2024	950,000	485,953	1,435,953
2025	950,000	457,912	1,407,912
2026	955,000	426,156	1,381,156
2027	965,000	390,842	1,355,842
2028	975,000	353,315	1,328,315
2029	985,000	313,752	1,298,752
2030	1,025,000	272,721	1,297,721
2031	1,035,000	230,111	1,265,111
2032	1,045,000	186,212	1,231,212
2033	1,060,000	140,865	1,200,865
2034	1,075,000	94,253	1,169,253
2035	790,000	53,238	843,238
2036	805,000	17,881	822,881
	<u>\$ 16,410,000</u>	<u>\$ 5,623,939</u>	<u>\$ 22,033,939</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-6. Change in Long-Term Bonded Debt
July 31, 2019

	Bond Issue				Totals
	Series 2010	Series 2013	Series 2014 Refunding	Series 2016	
Interest rate	1.59% - 5.44%	2.00% - 4.25%	2.34%	2.00% - 4.00%	
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/12 to 9/1/35	9/1/15 to 9/1/33	9/1/15 to 9/1/24	9/1/15 to 9/1/24	
Beginning bonds outstanding	\$ 4,125,000	\$ 4,925,000	\$ 3,515,000	\$ 4,775,000	\$ 17,340,000
Bonds retired	<u>(155,000)</u>	<u>(25,000)</u>	<u>(525,000)</u>	<u>(225,000)</u>	<u>(930,000)</u>
Ending bonds outstanding	<u>\$ 3,970,000</u>	<u>\$ 4,900,000</u>	<u>\$ 2,990,000</u>	<u>\$ 4,550,000</u>	<u>\$ 16,410,000</u>
Interest paid during fiscal year	<u>\$ 197,567</u>	<u>\$ 192,374</u>	<u>\$ 76,109</u>	<u>\$ 146,813</u>	<u>\$ 612,863</u>
Paying agent's name and city					
Series 2010, 2013, 2014 and 2016	<u>The Bank of New York Mellon, N.A., Dallas, Texas</u>				
Bond Authority:	Water and Sewer Bonds				
Amount Authorized by Voters	\$ 31,090,000				
Amount Issued	<u>(31,090,000)</u>				
Remaining To Be Issued	<u>\$ -</u>				

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of July 31, 2019: \$ 2,536,992

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,296,114

See accompanying auditors' report.

Harris County Water Control Improvement District No. 21
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Water service	\$3,137,434	\$ 3,192,841	\$2,917,586	\$2,897,134	\$2,739,288
Sewer service	869,078	902,742	820,413	785,767	745,614
Penalties and interest	59,123	62,221	66,354	67,651	63,517
Tap connection and inspection	23,074	89,033	114,250	64,355	62,959
Miscellaneous	23,396	30,735	29,968	22,115	22,419
Investment earnings	76,202	53,616	20,589	7,966	1,121
Total Revenues	4,188,307	4,331,188	3,969,160	3,844,988	3,634,918
Expenditures					
Current service operations					
Personnel	1,428,868	1,374,663	1,337,001	1,305,511	1,197,003
Purchased services	894,405	887,132	848,179	770,701	694,944
Professional fees	69,008	59,034	60,542	51,104	57,975
Contracted services	79,875	149,825	84,872	92,218	82,209
Repairs and maintenance	817,832	788,938	809,449	589,800	635,163
Utilities	175,411	175,628	177,394	195,416	187,584
Administrative	151,214	159,888	150,723	144,875	118,880
Other	44,200	53,280	54,125	40,475	42,801
Capital outlay	267,017	365,753			111,311
Intergovernmental					
Contractual obligation - principal					9,620
Contractual obligation - interest					3,016
Total Expenditures	3,927,830	4,014,141	3,522,285	3,190,100	3,140,506
Revenues Over Expenditures	\$ 260,477	\$ 317,047	\$ 446,875	\$ 654,888	\$ 494,412

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
74%	74%	72%	75%	74%
21%	21%	21%	20%	21%
1%	1%	2%	2%	2%
1%	2%	3%	2%	2%
1%	1%	1%	1%	1%
2%	1%	1%	*	*
100%	100%	100%	100%	100%
34%	32%	34%	34%	33%
21%	20%	21%	20%	19%
2%	1%	2%	1%	2%
2%	3%	2%	2%	2%
20%	18%	20%	15%	17%
4%	4%	4%	5%	5%
4%	4%	4%	4%	3%
1%	1%	1%	1%	1%
6%	8%			3%
				*
				*
94%	91%	88%	82%	85%
6%	9%	12%	18%	15%

Harris County Water Control Improvement District No. 21

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	\$1,726,860	\$1,593,923	\$1,458,136	\$1,358,270	\$1,278,619
Penalties and interest	31,675	41,996	35,696	37,305	31,979
Accrued interest on bonds sold			6,213		
Miscellaneous	6,620	15,407	5,516	3,984	
Investment earnings	39,149	25,076	9,970	3,758	645
Total Revenues	1,804,304	1,676,402	1,515,531	1,403,317	1,311,243
Expenditures					
Tax collection services	73,231	71,348	56,403	67,996	69,164
Debt service					
Principal	930,000	940,000	780,000	750,000	535,000
Interest and fees	612,787	673,248	503,141	532,807	528,433
Total Expenditures	1,616,018	1,684,596	1,339,544	1,350,803	1,132,597
Revenues Over (Under) Expenditures	\$ 188,286	\$ (8,194)	\$ 175,987	\$ 52,514	\$ 178,646
Total Active Retail Water Connections	2,512	2,502	2,513	2,497	2,492
Total Active Retail Wastewater Connections	2,102	2,151	2,087	2,078	2,064

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
96%	95%	97%	97%	98%
2%	3%	2%	3%	2%
		*		
*	1%	*	*	
2%	1%	1%	*	*
100%	100%	100%	100%	100%
4%	4%	4%	5%	5%
52%	56%	51%	53%	41%
34%	40%	33%	38%	40%
90%	100%	88%	96%	86%
10%	0%	12%	4%	14%

Harris County Water Control Improvement District No. 21
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended July 31, 2019

Complete District Mailing Address: 15808 Avenue C, Channelview, TX 77530

District Business Telephone Number: (281)452-0211

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): June 4, 2019

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

(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members:				
R. L. McRae	05/17 to 05/21	\$ 1,650	\$ -	President
Jimmy Ramsey	05/19 to 05/23	2,100		Vice President
Wesley Hutchins	07/18 to 05/21	1,800		Secretary
Pete Brady	05/17 to 05/21	2,100		Director
Jimmy Smith	05/19 to 05/23	2,100		Director
Key Administrative Personnel:				
Ronny Daniels	08/14/84	131,244		General Manager
Margaret Riojas	11/24/97	87,354		Office Manager/ Bookkeeper
		Amounts		
		Paid		
Consultants:				
Baker, Williams & Matthiesen, LLP	12/17	\$ 30,045		Attorney
Utility Tax Services, LLC	06/06	44,415		Tax Collector
Harris County Appraisal District	Legislation	12,859		Property Valuation
Linebarger, Goggan, Blair, et al, LLP	10/87	17,997		Delinquent Tax Attorney
ARKK Engineers	12/11	225,530		Engineer
McGrath & Co., PLLC - CPA's	Annual	22,500		Auditor
Masterson & Associates	05/18	3,500		Financial Advisor

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

See accompanying auditors' report.

APPENDIX B

Accreted Values of Premium Compound Interest Bonds