

**PRELIMINARY OFFICIAL STATEMENT DATED APRIL 13, 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, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

**NEW ISSUE-Book-Entry Only**

Underlying Rating: Moody's "Baa1"  
See "MUNICIPAL BOND RATING AND  
MUNICIPAL BOND INSURANCE" herein.

**\$1,655,000\***

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**(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 Municipal Utility District No. 450 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

The Bonds, 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 against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated Date: June 1, 2020**

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

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from June 1, 2020, and is payable each September 1 and March 1, commencing September 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

**MATURITY SCHEDULE**

Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2021	\$ 20,000		%		2030	\$ 105,000 (a)		%	
2022	85,000				2031	105,000 (a)			
2023	90,000				2032	105,000 (a)			
2024	90,000				2033	110,000 (a)			
2025	95,000				2034	110,000 (a)			
2026	95,000 (a)				2035	115,000 (a)			
2027	95,000 (a)				2036	120,000 (a)			
2028	95,000 (a)				2037	120,000 (a)			
2029	100,000 (a)								

- (a) Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) 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 from June 1, 2020, is to be added to the price.

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

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. See "LEGAL MATTERS." Certain legal matters will be reviewed by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds through DTC is expected on or about June 4, 2020.

**RAYMOND JAMES**

\*Preliminary; subject to change.

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**APPENDIX A—Auditor's Report and Financial Statements of the District for the fiscal year ended March 31, 2019**

## **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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 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**

### **Award of the Bonds**

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 par amount of the Bonds of \$\_\_\_\_\_, plus/less a net premium/original issue discount on the Bonds of \$\_\_\_\_\_, less an Underwriter’s discount of \$\_\_\_\_\_) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any 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 that stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

### **Securities Laws**

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

## 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 OUTLOOK (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 RATING 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.

### HURRICANE HARVEY

#### *General...*

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 25, 2017, and brought historic levels of rainfall during the successive four days.

#### *Impact on the District...*

According to Kimley-Horn & Associates, Inc. (the “Engineer”), the District’s water and wastewater system did not sustain any material damage, there was no interruption of water and sewer service, and no homes, apartments, or commercial improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

## **THE DISTRICT**

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality ("TCEQ"), on February 13, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District contains approximately 337 acres of land and is awaiting consent from the City of Houston to annex approximately 61 acres of land within its boundaries. See "THE DISTRICT."
<i>Location...</i>	The District is located approximately 18 miles northeast of the central downtown business district. Approximately 21 acres within the District's boundaries are within the extraterritorial jurisdiction of the City of Houston. The balance of the District is located within the corporate limits of the City of Houston and the entire District is within the boundaries of the Humble Independent School District. The District is bounded on the east by Lake Houston and is bisected by West Lake Houston Parkway, and is approximately four miles northeast of the intersection of East Sam Houston Parkway North and West Lake Houston Parkway. See "THE DISTRICT."
<i>Status of Development...</i>	<p>The District is being developed as Waters Edge, a primarily single family residential community consisting of 849 single-family residential lots on approximately 242 acres. As of March 20, 2020, 820 homes were completed, 6 homes were under construction, and 23 vacant developed lots were available for home construction. Homes within the District range in price from approximately \$170,000 to \$1,000,000. Approximately 17 acres have been developed as the Pointe at West Lake, an apartment community consisting of 280 multi-family residential apartment units and approximately 16 acres have been developed as The Parkway, an apartment community consisting of 324 multi-family apartment units. According to property management, approximately 92% of the units are occupied in the Pointe at West Lake and approximately 84% of the units are occupied in The Parkway.</p> <p>In addition to residential development, an amenity center that includes a clubhouse, pool and playground has been completed on approximately 3 acres. Approximately 59 acres are undevelopable (drainage and pipeline easements, street rights-of-way, open space, and utility sites). See "THE DISTRICT—Land Use" and "—Status of Development."</p>
<i>Homebuilding...</i>	Meritage and Westin Homes are actively marketing and/or building homes in the District. See "THE DISTRICT—Homebuilding."
<i>Water and Wastewater Service...</i>	The District receives its water supply from the City of Houston pursuant to the "Utility Functions and Services Allocation Agreement" with the City of Houston. Wastewater treatment is provided by an interim 300,000 gallons per day ("gpd") wastewater treatment plant owned and operated by the City of Houston. See "THE DISTRICT—Utility Agreement with the City of Houston" and "THE SYSTEM—Wastewater Treatment."
<i>Payment Record...</i>	The District has previously issued \$20,185,000 principal amount of unlimited tax bonds in seven series and \$5,370,000 principal amount of unlimited tax refunding bonds in two series, of which \$17,825,000 remains outstanding (the "Outstanding Bonds") as of the date hereof. The District has never defaulted on the payment of debt service on the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

## THE BONDS

<i>Description...</i>	The \$1,655,000* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially on September 1 in each of the years 2021 through 2037, both inclusive, in the principal amounts and on the dates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from June 1, 2020, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until the earlier of maturity or prior redemption. See “THE BONDS.”
<i>Book-Entry-Only...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, 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 certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2026 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, 2025, 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.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds, together with 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 currently refund and defease \$1,525,000* principal amount of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$16,300,000* principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
<i>Authority for Issuance...</i>	The Bonds are the third series of refunding bonds issued out of an aggregate of \$77,800,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system and for the further purpose refunding such bonds. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Remaining Outstanding Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	<p>Moody’s Investors Service (“Moody’s”) has assigned a credit rating of “Baa1” on the Bonds. An explanation of the rating may be obtained from Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody’s will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p> <p>Application has also been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the District. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p>

\*Preliminary; subject to change.

<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. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., 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—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 (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$302,165,950 (a)
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	\$316,606,500 (b)
Gross Direct Debt Outstanding (the Bonds and the Remaining Outstanding Bonds) .....	\$17,955,000* (c)
Estimated Overlapping Debt .....	<u>18,091,274 (d)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$36,046,274*
Ratios of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation.....	5.94%*
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	5.67%*
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	11.93%*
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	11.39%*
Debt Service Funds Available as of April 13, 2020 .....	\$2,093,868 (e)
General Operating Fund Balance as of April 13, 2020 .....	\$1,478,743
Capital Projects Fund Balance as of April 13, 2020.....	\$ 199,741
2019 Debt Service Tax Rate.....	\$0.43
2019 Maintenance Tax Rate.....	<u>0.20</u>
2019 Total Tax Rate.....	\$0.63
Average Annual Debt Service Requirement (2021-2040).....	\$1,146,685*(f)
Maximum Annual Debt Service Requirement (2021).....	\$1,326,168*(f)
Tax Rates Required to Pay Average Annual Debt Service (2021-2040) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.40*(g)
Based upon Estimated Taxable Assessed Valuation as of September 1, 2019.....	\$0.39*(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.47*(g)
Based upon Estimated Taxable Assessed Valuation as of September 1, 2019.....	\$0.45*(g)
Status of Development as of March 20, 2020 (h):	
Homes Completed .....	820
Homes Under Construction.....	6
Lots Available for Home Construction .....	23
Multi-Family Units.....	604
Estimated Population .....	4,078 (i)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District") See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on September 1, 2019. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2019 and September 1, 2019, will be certified as of January 1, 2020 and provided for purposes of taxation in the summer of 2020. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) The District intends to contribute approximately \$29,000\* of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.
- (f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (g) See "TAX DATA—Tax Adequacy for Debt Service."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence and 2.0 persons per multi-family residence.

## PRELIMINARY OFFICIAL STATEMENT

**\$1,655,000\***

### **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**

*(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 Municipal Utility District No. 450 (the “District”) of its \$1,655,000\* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an election held within the District and a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”).

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, 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 document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

## PLAN OF FINANCING

### **Purpose**

The proceeds of the Bonds and lawfully available debt service funds, if any, will be used to currently refund and defease portions of the District’s Unlimited Tax Bonds, Series 2013, totaling an aggregate principal amount of \$1,525,000\* (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. See “Refunded Bonds” herein. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” herein. A total of \$16,300,000\* in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

### **Refunded Bonds**

Proceeds of the Bonds, together with lawfully available debt service funds, if any, will be applied to currently refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date September 1	Series 2013*
2022	\$ 65,000
2023	70,000
2024	70,000
2025	75,000
2026	80,000
2027	80,000
2028	85,000
2029	90,000
2030	95,000
2031	100,000
2032	105,000
2033	110,000
2034	115,000
2035	120,000
2036	130,000
2037	135,000
	<hr/>
	\$ 1,525,000
Redemption Date:	September 1, 2020

\*Preliminary; subject to change.

## **Escrow Agreement**

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A. as escrow agent (the "Escrow Agent").

The Bond Resolution provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolution further provides that from the proceeds of the sale of the Bonds and other lawfully available debt service 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 used to purchase obligations issued or guaranteed by the United States Treasury (the "Escrowed Securities"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with cash, if any, in the Escrow Fund, 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 related series of Refunded Bonds and will not be available to pay principal of and interest on the 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, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolution of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

## **Sources and Uses of Funds**

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

### Sources of Funds:

Principal Amount of the Bonds .....	\$ _____
Plus/Less: Net Premium/Original Issue Discount on the Bonds.....	_____
Plus: 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.

## **THE BONDS**

### **Description**

The Bonds will be dated and accrue interest from June 1, 2020, with interest payable each September 1 and March 1, beginning September 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, 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 Resolution.

### **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 Resolution, 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 solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

### **Funds**

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

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

### **No Arbitrage**

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time-to-time in part, in integral multiples of \$5,000 on September 1, 2025, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

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

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**

At a bond election held within the District, voters of the District have authorized the issuance \$77,800,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system and for refunding such bonds. The Bonds are issued pursuant to such authorization. See "Issuance of Additional Debt" herein.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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.

## **Registration and Transfer**

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

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

### **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 Resolution 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's voters have authorized the issuance of \$77,800,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater, and storm drainage systems and for refunding such bonds and could authorize additional amounts. Any additional bonds sold would be on a parity with the Bonds. The District currently has \$57,400,000 principal amount of unlimited tax bonds for its water, wastewater and storm drainage system and for refunding outstanding bonds authorized but unissued. After the issuance of the Bonds, the District will have \$57,270,000\* principal amount of such unlimited tax bonds authorized but unissued.

The Bond Resolution impose 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."

The District is authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Texas Commission on Environmental Quality (the "TCEQ") and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling such an election at this time because the District receives fire service from Harris County Emergency Services District No. 46.

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

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Further, the District could seek approval by the Texas Legislature to acquire road powers. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ or the State Legislature, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered seeking "road powers" nor calling such an election at this time.

The issuance of additional debt for any of the above described purposes and the levy of taxes to pay debt service on such debt could dilute the investment security for the Bonds.

#### **Annexation and/or Dissolution by the City of Houston**

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city comprises that city's extraterritorial jurisdiction. The size of extraterritorial jurisdiction depends in part on the city's population. For the City of Houston, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city limits or city's extraterritorial jurisdiction, within five (5) miles of the corporate limits of the City of Houston. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. When a city annexes additional territory, the city's extraterritorial jurisdiction expands in conformity with such annexation.

The portion of the District located within the extraterritorial jurisdiction may be annexed by the City of Houston without the District's consent. Annexation requires the City of Houston to assume the District's assets and obligations (including the Bonds) and dissolve the District. 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 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.

The City may dissolve the District without the District's consent following annexation of the portion of the District outside the City. If the District is dissolved, the City of Houston will assume the District's assets and obligations (including the Bonds). Dissolution of a District 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 dissolve 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 dissolution 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.

#### **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 or confirmed in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. Except for mandamus, the Bond Resolution 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 Resolution 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 Resolution 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) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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



## 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 of ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

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

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

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

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

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the TCEQ dated February 13, 2007, after a hearing on a petition for creation submitted by Pulte. 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 54 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; the control and diversion of storm water; and solid waste collection and disposal. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. 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 City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and roads. See "THE BONDS—Issuance of Additional Debt."

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, within whose extraterritorial jurisdiction and corporate limits the District lies, the District is required to observe certain requirements of the City which: (i) limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, the provision of parks and recreational facilities and roads; (ii) limit the net effective interest rate on such bonds and other terms of such bonds; (iii) require approval by the City of District construction plans; and (iv) 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 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 is located approximately 18 miles northeast of the central downtown business district. The District contains approximately 337 acres of land and is awaiting consent from the City of Houston to annex approximately 61 acres of land within its boundaries. Of the total District acreage, approximately 316 acres are located within the corporate limits of the City of Houston and approximately 21 acres are located in the extraterritorial jurisdiction of the City of Houston. The entire District is within the boundaries of the Humble Independent School District. The District is bounded on the east by Lake Houston, bisected by West Lake Houston Parkway, and is located approximately four miles northeast of the intersection of East Sam Houston Parkway North and West Lake Houston Parkway.

## **Land Use**

The District's land plan currently includes approximately 242 acres developed as 849 single-family residential lots, approximately 17 acres developed as an apartment community consisting of 280 multi-family residential apartment units, approximately 16 acres developed as an apartment community consisting of 324 multi-family residential apartment units, approximately 3 acres developed as an amenity center and approximately 59 undevelopable acres (drainage and pipeline easements, open space, street rights-of-way, utility sites and amenity pond). The table below represents a detailed breakdown of the current acreage and development in the District.

Approximate	<u>Acres</u>	<u>Lots</u>
<u>Single-Family Residential</u>		
Waters Edge:		
Section One.....	3	7
Section Two.....	16	61
Section Three.....	19	46
Section Four.....	19	36
Section Five, Phase One.....	19	58
Section Five, Phase Two.....	11	59
Section Six.....	19	67
Section Seven, Phase One.....	11	46
Section Seven, Phase Two.....	12	56
Section Eight.....	1	2
Section Nine.....	3	8
Section Ten.....	9	32
Section Eleven.....	11	56
Section Twelve.....	5	15
Section Thirteen.....	21	53
Section Fourteen.....	14	68
Section Fifteen.....	12	47
Section Sixteen.....	8	29
Section Seventeen.....	20	64
Section Eighteen.....	8	35
Section Nineteen.....	<u>1</u>	<u>4</u>
Subtotal.....	242	849
Multi-Family Residential (604 Units).....	33	---
Non-Developable (a).....	<u>62</u>	<u>---</u>
Totals.....	337	849

(a) Includes public rights-of-way, detention, open space, easements, utility sites and existing amenity center.

## **Status of Development**

The District is being developed as Waters Edge, a primarily single family residential community consisting of 849 single-family residential lots on approximately 242 acres. As of March 20, 2020, 820 homes were completed, 6 homes were under construction, and 23 vacant developed lots were available for home construction. Homes within the District range in price from approximately \$170,000 to \$1,000,000. Approximately 17 acres have been developed as the Pointe at West Lake, an apartment community consisting of 280 multi-family residential apartment units and approximately 16 acres have been developed as The Parkway, an apartment community consisting of 324 multi-family apartment units. According to property management, approximately 92% of the units are occupied in the Pointe at West Lake and approximately 84% of the units are occupied in The Parkway. The estimated population in the District based upon 3.5 persons per completed single family residence and 2.0 persons per multi-family residence is 4,078.

In addition to residential development, an amenity center that includes a clubhouse, pool and playground has been completed on approximately 3 acres.

## **Homebuilding**

Meritage and Westin Homes are actively marketing and/or building homes in the District.

## **Utility Agreement with the City of Houston**

The District and the City of Houston (the “City”) have entered into a Utility Functions and Services Allocation Agreement, dated November 9, 2007 (the “Utility Agreement”), providing that the District will finance and construct all water, wastewater and storm drainage facilities required to serve the District, and will convey such facilities, other than detention facilities, to the City for operation and maintenance. In consideration of the conveyance of the system to the City, the City agreed to pay to the District 25.6% of the cost of such facilities, not to exceed \$6,240,809, following acceptance of the facilities by the City. The City completed its payments to the District, under the Utility Agreement, which funds have been used to defray a portion of the District’s reimbursement obligations to the developers. The City bills customers in the District according to applicable City water and wastewater rates, and all revenues from the District’s system (including tap fees) belong to the City.

Pursuant to the Utility Agreement, the District has constructed and conveyed to the City a 300,000 gallons per day interim wastewater treatment plant within the District. The City has the right to divert all or a portion of the District’s wastewater to another wastewater facility of the City, at the City’s expense; provided that if the diversion occurs prior to the completion of the interim plant, any funds not expended in connection with the interim plant shall be paid to the City to help defray the costs of the diversion. The District is aware that the City intends to divert the flow at some point, but does not know of any imminent plan to do so. See “THE SYSTEM.”

## **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. One of the Board members resides within the District; and, each of the remaining four Board members own land within the District subject to a note and deed of trust in favor of one of the developers of 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>
Randall H. Trncak	President	May 2024
Kylan I. Tanner	Vice President	May 2022
Joanne Lannin	Secretary	May 2024
Noe Escobar	Assistant Vice President	May 2022
Erik Haaland	Assistant Secretary	May 2022

### **District Consultants**

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

**Bond Counsel/Attorney:** The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District’s debt obligations. The fees of the attorneys in their 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 serves as the District’s Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is 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 annual audit is filed with the TCEQ. The District’s financial statements for the fiscal year ended March 31, 2019 were audited by McCall Gibson Swedlund Barfoot PLLC. The District has engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the fiscal year ended March 31, 2020. See “APPENDIX A” for a copy of the District’s March 31, 2019, audited financial statements.

**Engineer:** The District’s consulting engineer is Kimley-Horn and Associates, Inc.

**Bookkeeper:** The District has contracted with Myrtle Cruz, Inc. (the “Bookkeeper”) for bookkeeping services.

**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. Assessments of the Southwest, Inc. (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

*Utility System Operator:* The operator of the District’s water and wastewater system is the City of Houston.

## **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 City of Houston, the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the City of Houston. The City of Houston and the Texas Department of Health also exercise regulatory jurisdiction over the water and wastewater system that serves the District.

### **Water Supply**

District customers receive their water supply directly from the City of Houston pursuant to the “Utility Functions and Services Allocation Agreement” with the City of Houston. See “THE DISTRICT—Utility Agreement with the City of Houston.” The City of Houston has allocated water supply to the District in an amount adequate to serve 1,441 equivalent single-family connections. The City of Houston’s off-site water supply infrastructure required to supply the 1,441 connections is in place, and the District has paid for 1,389 connections as of the date hereof. As of December 27, 2019, approximately 1,214 equivalent single-family connections (820 completed homes, 6 homes under construction and 604 residential apartment units) in the District are receiving service.

### **Subsidence District Requirements**

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. Because the District is served by the City with water, the District has no potable water well subject to regulation by the Subsidence District.

### **Wastewater Treatment**

Wastewater treatment is provided by an interim 300,000 gallons per day (“gpd”) wastewater treatment plant constructed by the District and conveyed to the City of Houston pursuant to the Utility Functions and Services Allocation Agreement with the City of Houston. See “THE DISTRICT—Utility Agreement with the City of Houston.” The interim wastewater treatment plant has the capacity to serve 1,200 equivalent single-family connections. As of December 2019, approximately 1,214 equivalent single-family connections in the District are receiving service. According to the February 2020 wastewater treatment plant reporting by the City, the plant is receiving below the amount of flow projected by the 1,214 equivalent single-family connections; therefore excess operation capacity exists in the plant as it exists. The ultimate permitted capacity of the wastewater treatment plant is 450,000 gpd and according to the Engineer, is sufficient to serve the planned build-out of the District.

Pursuant to the Utility Functions and Services Allocation Agreement with the City, the City has the right to divert all or a portion of the District’s wastewater to another wastewater facility of the City, at the City’s expense; provided that if the diversion occurs prior to the completion of the interim plant, any funds not expended in connection with the interim plant shall be paid to the City to help defray the costs of the diversion. The District is aware that the City intends to divert the flow at some point, but does not know of any imminent plan to do so.

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

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded and a number of neighborhoods in the Greater Houston Area that are above the 100-year flood plain have flooded multiple times in the past several years. The District’s drainage system has been designed and constructed to all current standards. Further, according to the Engineer, none of the developed acreage within the District is located within the 100-year flood plain. 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 Participation-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 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.

### **General Operating Fund**

The following statement sets forth in condensed form the General Operating Fund as derived from the District’s audited financial statement for the years ending March 31, 2016 through March 31, 2019 and an unaudited summary for the year ending March 31, 2020 provided by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. This summary should be used in conjunction with the full audit attached hereto as “APPENDIX A” and should not be detached. Because District customers receive water and sewer service directly from the City of Houston, the District’s General Operating Fund is used primarily for administrative expenses of the District.

	Fiscal Year Ended March 31					
	2020 (Unaudited)	(a)	2019	2018	2017	2016
<b>Revenues</b>						
Property Taxes	\$ 595,655		\$ 521,784	\$ 335,384	\$ 315,947	\$ 254,500
Investment and Miscellaneous Revenues	3,133		1,950	1,192	803	1,042
<b>Total Revenues</b>	<b>\$ 598,788</b>		<b>\$ 523,734</b>	<b>\$ 336,576</b>	<b>\$ 316,750</b>	<b>\$ 255,542</b>
<b>Expenditures</b>						
Professional Fees	\$ 134,042		\$ 139,276	\$ 74,589	\$ 102,506	\$ 130,505
Contracted Services	15,356		15,469	15,163	15,700	15,550
Utilities	-		-	-	-	-
Groundwater Reduction Plan Fee (b)	329		1,045	6,355	10,899	8,000
Repairs and Maintenance	5,749		22,227	-	55,156	-
Other	14,994		23,943	32,035	37,450	16,880
Capital Outlay	-		-	4,285	465,427	1,284,236
Bond Issuance Costs	-		-	51,990		
<b>Total Expenditures</b>	<b>\$ 170,470</b>		<b>\$ 201,960</b>	<b>\$ 184,417</b>	<b>\$ 687,138</b>	<b>\$ 1,455,171</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 428,318</b>		<b>\$ 321,774</b>	<b>\$ 152,159</b>	<b>\$ (370,388)</b>	<b>\$ (1,199,629)</b>
<b>Other Sources (Internal Transfers)</b>						
Developer Advances (c)	\$ -		\$ -	\$ -	\$ 115,000	\$ 800,150
City of Houston Share of Capital Assets	-		-	-	-	850,378
Transfers In (Out)	-		-	52,463	-	29
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 1,057,485</b>		<b>\$ 735,711</b>	<b>\$ 531,088</b>	<b>\$ 786,476</b>	<b>\$ 335,549</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 1,485,803</b>		<b>\$ 1,057,485</b>	<b>\$ 735,711</b>	<b>\$ 531,088</b>	<b>\$ 786,476</b>

(a) Unaudited. Provided by the Bookkeeper.

(b) Pursuant to an agreement, a well permitted by Harris County Municipal Utility District No. 412 (“MUD 412”) provides water for irrigation to certain areas within the District. The District pays associated pumpage fees to MUD 412 for providing groundwater from such well in accordance with the City’s groundwater reduction plan.

(c) The developers have advanced funds for certain costs related to the expansion of the water, sewer and drainage facilities.

## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$302,165,950 (a)
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	\$316,606,500 (b)
Gross Direct Debt Outstanding .....	\$17,955,000 *(c)
Estimated Overlapping Debt .....	18,091,274 (d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$36,046,274 *
Ratios of Gross Direct Debt to:	
2019 Certified Taxable Assessed Valuation.....	5.94% *
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	5.67% *
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	11.93% *
Estimated Taxable Assessed Valuation as of September 1, 2019 .....	11.39% *
Debt Service Funds Available as of April 13, 2020 .....	\$2,093,868 (e)
General Operating Fund Balance as of April 13, 2020 .....	\$1,478,743
Capital Projects Fund Balance as of April 13, 2020.....	\$ 199,741

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on September 1, 2019. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2019 and September 1, 2019, will be certified as of January 1, 2020 and provided for purposes of taxation in the summer of 2020. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds and the refunding of the Refunded Bonds. See "Outstanding Bonds" herein.
- (d) See "Estimated Overlapping Debt" herein.
- (e) The District intends to contribute approximately \$29,000\* of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Neither Texas law nor the Bond Resolution requires the District to 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. 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 of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds*	Remaining Outstanding Bonds*
2009	\$ 3,400,000	\$ -	\$ -	\$ -
2010	1,500,000	50,000	-	50,000
2012	1,750,000	105,000	-	105,000
2013	1,930,000	1,645,000	1,525,000	120,000
2014	2,900,000	2,630,000	-	2,630,000
2016 (a)	2,900,000	2,720,000	-	2,720,000
2017	6,465,000	5,965,000	-	5,965,000
2019 (a)	2,470,000	2,470,000	-	2,470,000
2019A	2,240,000	2,240,000	-	2,240,000
Total	\$ 25,555,000	\$ 17,825,000	\$ 1,525,000	\$ 16,300,000
The Bonds				1,655,000 *
The Bonds and Remaining Outstanding Bonds				\$ 17,955,000 *

- (a) Unlimited tax refunding bonds.

\*Preliminary; subject to change.

## Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$1,525,000\* principal amount), plus the estimated debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds*	Plus: Debt Service on the Bonds*			Total Debt Service Requirements*
			Principal	Interest	Total	
2020	\$ 1,046,062.50	(a) \$ 35,268.75	\$ -	\$ 8,275.00	\$ 8,275.00	\$ 1,019,068.75
2021	1,343,605.00	70,537.50	20,000	33,100.00	53,100.00	1,326,167.50
2022	1,324,582.50	135,537.50	85,000	32,700.00	117,700.00	1,306,745.00
2023	1,334,927.50	138,262.50	90,000	31,000.00	121,000.00	1,317,665.00
2024	1,328,852.50	135,637.50	90,000	29,200.00	119,200.00	1,312,415.00
2025	1,323,377.50	137,837.50	95,000	27,400.00	122,400.00	1,307,940.00
2026	1,322,646.25	139,650.00	95,000	25,500.00	120,500.00	1,303,496.25
2027	1,314,971.25	136,050.00	95,000	23,600.00	118,600.00	1,297,521.25
2028	1,310,521.25	137,450.00	95,000	21,700.00	116,700.00	1,289,771.25
2029	1,303,933.75	138,518.75	100,000	19,800.00	119,800.00	1,285,215.00
2030	1,306,215.00	139,243.75	105,000	17,800.00	122,800.00	1,289,771.25
2031	1,295,977.50	139,731.25	105,000	15,700.00	120,700.00	1,276,946.25
2032	1,289,577.50	139,856.25	105,000	13,600.00	118,600.00	1,268,321.25
2033	1,283,702.50	139,737.50	110,000	11,500.00	121,500.00	1,265,465.00
2034	1,301,321.25	139,375.00	110,000	9,300.00	119,300.00	1,281,246.25
2035	1,026,133.75	138,768.75	115,000	7,100.00	122,100.00	1,009,465.00
2036	1,039,836.25	142,918.75	120,000	4,800.00	124,800.00	1,021,717.50
2037	1,026,811.25	141,581.25	120,000	2,400.00	122,400.00	1,007,630.00
2038	757,376.25	-	-	-	-	757,376.25
2039	512,550.00	-	-	-	-	512,550.00
2040	496,275.00	-	-	-	-	496,275.00
Total	\$ 24,289,256.25	\$ 2,325,962.50	\$ 1,655,000	\$ 334,475.00	\$ 1,989,475.00	\$ 23,952,768.75

(a) Excludes the March 1, 2020 debt service payment in the amount of \$287,205.

Average Annual Debt Service Requirements (2021-2040) .....\$1,146,685\*  
Maximum Annual Debt Service Requirement (2021).....\$1,326,168\*



## **Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,478,697,125	2/29/2020	0.060%	\$ 887,218
Harris County Flood Control District.....	83,075,000	2/29/2020	0.060%	49,845
Harris County Hospital District.....	55,005,000	2/29/2020	0.060%	33,003
Harris County Department of Education.....	6,320,000	2/29/2020	0.060%	3,792
Port of Houston Authority.....	572,569,397	2/29/2020	0.060%	343,542
City of Houston.....	3,654,135,000	2/29/2020	0.120%	4,384,962
Humble Independent School District.....	757,495,000	2/29/2020	1.530%	11,589,674
Lone Star College System.....	570,885,000	2/29/2020	0.140%	799,239
Total Estimated Overlapping Debt.....				\$ 18,091,274
The District.....	17,955,000 (a)	Current	100.00%	17,955,000
Total Direct and Estimated Overlapping Debt.....				\$ 36,046,274

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$302,165,950 .....	11.93%*
Estimated Taxable Assessed Valuation as of September 1, 2019 of \$316,606,500 .....	11.39%*

(a) The Bonds and the Remaining Outstanding 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, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2019 tax year by all taxing jurisdictions 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.

	Tax Rate per \$100 of Taxable Assessed Valuation
Harris County (including Harris County Flood Control District Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority).....	\$ 0.616700
Humble Independent School District.....	1.418350
City of Houston.....	0.567920
Lone Star College System.....	0.107800
Total Overlapping Tax Rate.....	\$ 2.710770
The District (a).....	0.630000
Total Tax Rate.....	\$ 3.340770

(a) Approximately 21 acres located within the City of Houston's extraterritorial jurisdiction is provided emergency fire and medical services by Harris County Emergency Services District No. 46, which levied a 2019 tax rate of \$0.10 per \$100 of taxable assessed valuation.

## TAX DATA

### **Debt Service Tax**

The District covenants in the Bond Resolution 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 “Historical Tax Rate Distribution” and “Tax Roll Information” herein, and “TAXING PROCEDURES.”

### **Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted May 12, 2007, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” herein.

### **Historical Tax Rate Distribution**

	2019	2018	2017	2016	2015
Debt Service	\$ 0.43	\$ 0.500	\$ 0.640	\$ 0.64000	\$ 0.61500
Maintenance and Operations	0.20	0.195	0.145	0.17358	0.18388
Total	\$ 0.63	\$ 0.695	\$ 0.785	\$ 0.81358	\$ 0.79888

### **Tax Exemptions**

For tax year 2020, the District did not exempt any percentage of the market value of any residential homesteads from taxation and has adopted an exemption of \$20,000 of the appraised value of residential homesteads for persons who are 65 years of age or older or disabled.

### **Additional Penalties**

The District has contracted with a delinquent tax 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, (April 1 for personal property), but not later than May 1 of that year, and that remain delinquent on July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

### **Historical Tax Collections**

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

Tax Year	Certified	Tax Rate	Total Tax Levy (b)	Total Collections as of March 31, 2020 (c)	
	Taxable Assessed Valuation (a)			Amount	Percent
2015	\$ 135,728,442	\$ 0.79888	\$ 1,084,307	\$ 1,082,784	99.86%
2016	181,384,232	0.81358	1,475,706	1,474,019	99.89%
2017	229,266,924	0.78500	1,799,745	1,795,868	99.78%
2018	267,596,739	0.69500	1,859,797	1,853,652	99.67%
2019	302,165,950	0.63000	1,903,645	1,859,996	97.71%

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Represents unaudited collections.

## **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 2014 through 2019 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. A breakdown of the Estimated Taxable Assessed Valuation as of September 1, 2019 of \$316,606,500, is not included herein.

	2019 Certified Taxable Assessed Valuation	2018 Certified Taxable Assessed Valuation	2017 Certified Taxable Assessed Valuation	2016 Certified Taxable Assessed Valuation	2015 Certified Taxable Assessed Valuation
Land	\$ 51,351,112	\$ 46,224,905	\$ 45,016,517	\$ 42,705,444	\$ 36,366,274
Improvements	259,863,647	227,761,458	190,113,954	146,725,634	101,040,345
Personal Property	1,866,065	1,948,370	1,647,993	1,666,993	1,479,729
Exemptions	(10,914,874)	(8,232,005)	(7,511,540)	(9,713,839)	(3,157,906)
Total	\$ 302,165,950	\$ 267,596,739	\$ 229,266,924	\$ 181,384,232	\$ 135,728,442

## **Principal Taxpayers**

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property's taxable assessed valuation as a percentage of the 2019 Certified Taxable Assessed Valuation of \$302,165,950, which represents ownership as of January 1, 2019. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of September 1, 2019 of \$316,606,500, is not available.

Taxpayer	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
WL Houston Parkway LLC (a)	\$ 37,656,491	12.46%
Pointe at West Lake Properties LLC (a)	36,827,493	12.19%
Westin Homes & Properties LP (b)	2,571,116	0.85%
Centerpoint Energy Electric	1,035,370	0.34%
Individual	889,900	0.29%
Individual	851,996	0.28%
Individual	831,278	0.28%
Individual	803,425	0.27%
Individual	769,057	0.25%
Meritage Homes of Texas LLC (b)	739,633	0.24%
Total	\$ 82,975,759	27.46%

(a) Apartments.

(b) See "THE DISTRICT—Homebuilding."

## **Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 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 of \$302,165,950 or the Estimated Taxable Assessed Valuation as of September 1, 2019 of \$316,606,500. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

Average Annual Debt Service Requirement (2021-2040) .....	\$1,146,685*
\$0.40* Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,148,231*
\$0.39* Tax Rate on Estimated Taxable Assessed Valuation as of September 1, 2019 .....	\$1,173,027*
Maximum Annual Debt Service Requirement (2021).....	\$1,326,168*
\$0.47* Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,349,171*
\$0.45* Tax Rate on Estimated Taxable Assessed Valuation as of January 1, 2019 .....	\$1,353,493*

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of September 1, 2019 will not be adjusted downward prior to being certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

## **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 Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

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

Title I of the Texas 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; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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 \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residential homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. Effective January 1, 2014, 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, effective January 1, 2014, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. 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 before July 1. To date, the District has not adopted a homestead exemption. See "TAX DATA."

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

### **Tax Abatement**

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City of Houston and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the 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. To date, neither Harris County nor the City of Houston has designated land within the District as a reinvestment zone.

### **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.

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

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

### **Reappraisal of Property**

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

### **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. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain

circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement 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 monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

### **Tax Payment Installments**

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

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

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

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

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

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

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

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

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

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—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 in the preceding section 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 Collections 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.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Houston, or any other political entity other than the District, will be secured by a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

### **Infectious Disease Outlook (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. 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 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 RATING 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 25, 2017, and brought historic levels of rainfall during the successive four days.

According to the Engineer, the District’s water and wastewater system did not sustain any material damage, there was no interruption of water and sewer service, and no homes, apartments, or commercial improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

#### **Specific Flood Type Risks**

*River (or Fluvial) Flood:* 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

*Ponding (or Pluvial) Flood:* occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam or levee.

## **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District currently results from the current market value of single-family residences, vacant lots and multi-family residential properties. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential properties can be significantly affected by factors such as interest rates, credit availability, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed.

## **Competition**

The demand for and construction of single-family homes in the District, which is 18 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the northeastern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

## **Development and Home Construction in the District**

As of March 20, 2020, approximately 23 developed lots within the District owned by Meritage and Westin Homes remained vacant. Future increases in value will result primarily from the construction of new homes. The District makes no representation with regard to whether or not the homebuilding will be successful. See “THE DISTRICT—Land Use,” “—Status of Development” and “—Homebuilding.”

## **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 local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, 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 Resolution. Except for mandamus, the Bond Resolution 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 Resolution 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 (1) is 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 TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ 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 has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$77,800,000 principal amount has been authorized by the District's voters for the purpose of purchasing and constructing a water, wastewater, and storm drainage system and for refunding such bonds. The District currently has \$57,400,000 principal amount of unlimited tax bonds authorized but unissued for water, wastewater and storm drainage facilities and refunding such bonds and after issuance of the Bonds, the District will have \$57,270,000\* principal amount of such unlimited tax bonds authorized but unissued,. Voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

### **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.

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\*Preliminary; subject to change.

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

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

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

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

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

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

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

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

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

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

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

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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

### **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 insurance provider (the “Insurer”) providing the Policy 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.

### **Marketability of the Bonds**

The District has no understanding 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 more generally bought, sold or traded in the secondary market.

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

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

### **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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

Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “Baa1” to the Bonds. An explanation of the rating may be obtained from Moody’s. The rating fees of Moody’s will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

The use of insurance and the payment of an insurance premium is at the option and expense of the District. The rating fees of Moody’s 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 Moody’s, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **LEGAL MATTERS**

### **Legal Proceedings**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “PLAN OF FINANCING—Escrow Agreement” and “—Defesance of the Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” and “—Utility Agreement with the City of Houston,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent 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.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT.

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

## **TAX MATTERS**

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. In addition, the District will rely on the report of Public Finance Partners LLC, regarding the mathematical accuracy of certain computations. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

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

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") may be less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds and should be considered in connection with the discussion in this portion of the OFFICIAL STATEMENT.



The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this OFFICIAL STATEMENT, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

### **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 will designate 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 used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes; and (c) 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.

## **PREPARATION OF OFFICIAL STATEMENT**

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

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

### **Financial Advisor**

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a 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**

*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 Assessments of the Southwest, Inc., and is included herein in reliance upon as an expert in assessing property values and collecting taxes.

*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," and "THE SYSTEM," has been provided by Kimley-Horn and Associates, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The District's financial statements for the year ended March 31, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's March 31, 2019, audited financial statements.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—General Operating Fund" has been provided by Myrtle Cruz, Inc., and is included herein in reliance upon the authority of such firm as an expert in tracking and managing the various funds of municipal utility districts.

### **Updating the Official Statement**

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the 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, 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 Board has relied in part upon its examination of records of the District, and upon 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 Resolution, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) System.

### **Annual Reports**

The District will provide certain financial information and operating data annually 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 “THE SYSTEM,” “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” except for “Estimated Overlapping Debt,” “TAX DATA,” and in APPENDIX A (Auditor’s Report and Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles 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. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District’s current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Event Notices**

The District will provide timely notices of certain specified 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 status of the Bonds, or other events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, 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 the financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution 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 information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access (“EMMA”) internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

## **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; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

## **Compliance With Prior Undertakings**

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

## **MISCELLANEOUS**

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

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

ATTEST:

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

## **APPENDIX A**

The information contained in this appendix includes the Annual Audit Report of Harris County Municipal Utility District No. 450 for the fiscal year ended March 31, 2019.

EXHIBIT B

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2019**

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2019**

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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Harris County Municipal  
Utility District No. 450  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 450 (the "District"), as of and for the year ended March 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Member of*  
*American Institute of Certified Public Accountants*  
*Texas Society of Certified Public Accountants*

Board of Directors  
Harris County Municipal  
Utility District No. 450

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

June 10, 2019

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

Management's discussion and analysis of Harris County Municipal Utility District No. 450's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2019. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, maintenance tax revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$1,119,972 as of March 31, 2019.

The following is a comparative analysis of government-wide changes in net position.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED MARCH 31, 2019**

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

Summary of Changes in the Statement of Net Position			
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 4,230,534	\$ 3,825,803	\$ 404,731
Capital and Intangible Assets (Net of Accumulated Amortization)	14,023,905	14,388,460	(364,555)
Total Assets	\$ 18,254,439	\$ 18,214,263	\$ 40,176
Deferred Outflows of Resources	\$ 174,050	\$ 185,702	\$ (11,652)
Due to Developer	\$ 3,148,009	\$ 3,148,009	\$
Long -Term Liabilities	15,695,255	16,314,979	619,724
Other Liabilities	705,197	642,745	(62,452)
Total Liabilities	\$ 19,548,461	\$ 20,105,733	\$ 557,272
Net Position:			
Net Investment in Capital Assets	\$ (3,230,764)	\$ (3,358,931)	\$ 128,167
Restricted	2,122,310	1,987,586	134,724
Unrestricted	(11,518)	(334,423)	322,905
Total Net Position	\$ (1,119,972)	\$ (1,705,768)	\$ 585,796

The following table provides a summary of the District's operations for the years ended March 31, 2019, and March 31, 2018. The District's net position increased by \$585,796 accounting for a 34.3% increase in net position.

Summary of Changes in the Statement of Activities			
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,864,988	\$ 1,798,297	\$ 66,691
Other Revenues	17,626	254,837	(237,211)
Total Revenues	\$ 1,882,614	\$ 2,053,134	\$ (170,520)
Expenses for Services	1,296,818	1,705,520	408,702
Change in Net Position	\$ 585,796	\$ 347,614	\$ 238,182
Net Position, Beginning of Year	(1,705,768)	(2,053,382)	347,614
Net Position, End of Year	\$ (1,119,972)	\$ (1,705,768)	\$ 585,796

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

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

The District's combined fund balances as of March 31, 2019, were \$3,516,298, an increase of \$372,591 from the prior year.

The General Fund fund balance increased by \$321,774, primarily due to property tax revenues exceeding operating costs.

The Debt Service Fund fund balance increased by \$141,167, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$90,350, primarily due to repairs and maintenance costs from the proceeds of the Series 2017 bonds.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors amended the budget during the fiscal year to increase projected property tax revenue. Actual revenue was \$89,445 more than budgeted revenue due to higher than projected maintenance tax revenues. Actual expenditures were \$62,579 less than budgeted expenditures primarily due to less than anticipated groundwater reduction plan fees and repairs and maintenance costs, offset by higher than anticipated professional fees.

**CAPITAL AND INTANGIBLE ASSETS**

Capital assets as of March 31, 2019, total \$123,521 (net of accumulated depreciation) and include land. In accordance with the Utility Functions and Services Allocations Agreement, see Note 8, as assets are placed in service they are conveyed to the City to operate and maintain.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 123,521	\$ 123,521	\$ -0-

The District is located within the city limits of the City of Houston (the "City") In accordance with the Utility Functions and Service Allocation Agreement with the City, all water, wastewater and drainage facilities are conveyed to the City once constructed and placed in service. The City operates the facilities and is responsible for the maintenance. The District has recognized an intangible asset for the cost of the facilities conveyed which has a March 31, 2019 balance, net of accumulated amortization, of \$13,900,384. Current year amortization expense was \$364,555.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2019**

**LONG-TERM DEBT ACTIVITY**

As of March 31, 2019, the District had total bond debt payable of \$16,160,000. The changes in the debt position of the District during the fiscal year ended March 31, 2019, are summarized as follows:

Bond Debt Payable, April 1, 2018	\$ 16,745,000
Less: Bond Principal Paid	<u>585,000</u>
Bond Debt Payable, March 31, 2019	<u>\$ 16,160,000</u>

The District's Series 2010, Series 2012, Series 2013 and Series 2014 bonds do not carry an underlying or insured rating. The Series 2016 Refunding and Series 2017 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. The above ratings are as of March 31, 2019, and reflect all rating changes of the bond insurers through the year then ended.

The District has recorded an amount due to the Developer of \$3,148,009 as of March 31, 2019. This amount relates to construction costs of facilities that the Developer funded on behalf of the District as well as Developer advances received by the District.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 450, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash	\$ 1,064,881	\$ 2,137,993
Receivables:		
City of Houston		
Property Taxes	10,611	29,477
Penalty and Interest on Delinquent Taxes		
Due from Other Funds	2,429	
Prepaid Costs	3,158	
Intangible Assets (Net of Accumulated Amortization)		
Land		
<b>TOTAL ASSETS</b>	<u>\$ 1,081,079</u>	<u>\$ 2,167,470</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	<u>\$ -0-</u>	<u>\$ -0-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,081,079</u>	<u>\$ 2,167,470</u>

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



<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 356,660	\$ 3,559,534	\$	\$ 3,559,534
		621,409	621,409
	40,088		40,088
		6,345	6,345
	2,429	(2,429)	
	3,158		3,158
		13,900,384	13,900,384
		123,521	123,521
<u>\$ 356,660</u>	<u>\$ 3,605,209</u>	<u>\$ 14,649,230</u>	<u>\$ 18,254,439</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 174,050</u>	<u>\$ 174,050</u>
<u>\$ 356,660</u>	<u>\$ 3,605,209</u>	<u>\$ 14,823,280</u>	<u>\$ 18,428,489</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 12,983	\$
Accrued Interest Payable		
Due to Developer		
Due to Other Funds		2,429
Due to Taxpayers		273
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 12,983</u>	<u>\$ 2,702</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	<u>\$ 10,611</u>	<u>\$ 29,477</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 3,158	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,135,291
Unassigned	<u>1,054,327</u>	
<b>TOTAL FUND BALANCES</b>	<u>\$ 1,057,485</u>	<u>\$ 2,135,291</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 1,081,079</u>	<u>\$ 2,167,470</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 33,138	\$ 46,121	\$	\$ 46,121
		48,803	48,803
		3,148,009	3,148,009
	2,429	(2,429)	
	273		273
		610,000	610,000
		15,695,255	15,695,255
<u>\$ 33,138</u>	<u>\$ 48,823</u>	<u>\$ 19,499,638</u>	<u>\$ 19,548,461</u>
<u>\$ -0-</u>	<u>\$ 40,088</u>	<u>\$ (40,088)</u>	<u>\$ -0-</u>
\$ 323,522	\$ 3,158	\$ (3,158)	\$
	323,522	(323,522)	
	2,135,291	(2,135,291)	
	1,054,327	(1,054,327)	
<u>\$ 323,522</u>	<u>\$ 3,516,298</u>	<u>\$ (3,516,298)</u>	<u>\$ -0-</u>
<u>\$ 356,660</u>	<u>\$ 3,605,209</u>		
		\$ (3,230,764)	\$ (3,230,764)
		2,122,310	2,122,310
		(11,518)	(11,518)
		<u>\$ (1,119,972)</u>	<u>\$ (1,119,972)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**MARCH 31, 2019**

Total Fund Balances - Governmental Funds	\$	3,516,298
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Amounts reported for governmental activities in the Statement of Net Position are different because:

The City of Houston's portion of capital assets completed by the developer on the District and City's behalf are not current financial resources and, therefore, are not reported as assets in the governmental funds.		621,409
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Capital and intangible assets used in governmental activities are not a financial resources and, therefore, are not reported as assets in governmental funds.		14,023,905
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		46,433
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Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.		174,050
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$	(3,148,009)	
Accrued Interest Payable		(48,803)	
Bonds Payable		<u>(16,305,255)</u>	<u>(19,502,067)</u>

Total Net Position - Governmental Activities	\$	<u>(1,119,972)</u>
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The accompanying notes to the financial  
statements are an integral part of this report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 521,784	\$ 1,350,849
Penalty and Interest		8,487
Investment and Miscellaneous Revenues	<u>1,950</u>	<u>5,953</u>
<b>TOTAL REVENUES</b>	<u>\$ 523,734</u>	<u>\$ 1,365,289</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 139,276	\$ 3,177
Contracted Services	15,469	29,052
Groundwater Reduction Plan Fee	1,045	
Repairs and Maintenance	22,227	
Amortization		
Other	23,943	10,967
Debt Service:		
Bond Principal		585,000
Bond Interest		<u>595,926</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 201,960</u>	<u>\$ 1,224,122</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 321,774	\$ 141,167
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b>		
<b>APRIL 1, 2018</b>	<u>735,711</u>	<u>1,994,124</u>
<b>FUND BALANCES/NET POSITION -</b>		
<b>MARCH 31, 2019</b>	<u>\$ 1,057,485</u>	<u>\$ 2,135,291</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,872,633	\$ (7,645)	\$ 1,864,988
	8,487	618	9,105
618	8,521		8,521
<u>\$ 618</u>	<u>\$ 1,889,641</u>	<u>\$ (7,027)</u>	<u>\$ 1,882,614</u>
\$ 187	\$ 142,640	\$	\$ 142,640
	44,521		44,521
	1,045		1,045
90,565	112,792		112,792
		364,555	364,555
216	35,126		35,126
	585,000	(585,000)	
	595,926	213	596,139
<u>\$ 90,968</u>	<u>\$ 1,517,050</u>	<u>\$ (220,232)</u>	<u>\$ 1,296,818</u>
\$ (90,350)	\$ 372,591	\$ (372,591)	\$
		585,796	585,796
<u>413,872</u>	<u>3,143,707</u>	<u>(4,849,475)</u>	<u>(1,705,768)</u>
<u>\$ 323,522</u>	<u>\$ 3,516,298</u>	<u>\$ (4,636,270)</u>	<u>\$ (1,119,972)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2019**

Net Change in Fund Balances - Governmental Funds	\$ 372,591
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are levied.	(7,645)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenues are recorded when penalty and interest are assessed.	618
Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized and expense is recorded in the Statement of Activities.	(364,555)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	585,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(213)
Change in Net Position - Governmental Activities	<u>\$ 585,796</u>

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 450 (the "District") was created effective February 13, 2007, by an Order of the Texas Commission on Environmental Quality, (the "Commission"). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is located within the corporate limits of the City of Houston, Texas. The Board of Directors held its first meeting on February 26, 2007, and the first bonds were sold on December 29, 2009.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Financial Statement Presentation

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

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2019, the Debt Service Fund owed the General Fund \$2,429 for maintenance tax collections.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Drainage Systems	10-45

Intangible Assets

Intangible assets, consisting of rights to receive water and wastewater service, are reported in the government-wide Statement of Net Position. Intangible assets are valued at the cost of water and wastewater facilities conveyed to the City of Houston, Texas per the Utility Functions and Services Allocation Agreement and amortized over the term of the applicable service contract, which is 50 years from the execution date of the contract. See Note 8 for additional information.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

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

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

Measurement Focus (Continued)

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

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

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

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

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

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

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

Accounting Estimates

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 3. LONG-TERM DEBT**

	Series 2010	Series 2012	Series 2013
Amount Outstanding – March 31, 2019	\$1,180,00	\$1,510,000	\$1,700,000
Interest Rates	4.00%-5.00%	2.25%-4.00%	3.00%-4.875%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2034	September 1, 2019/2037	September 1, 2019/2037
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2018*	September 1, 2019*	September 1, 2020*

  

	Series 2014	Refunding Series 2016	Series 2017
Amount Outstanding – March 31, 2019	\$2,705,000	\$2,850,000	\$6,215,000
Interest Rates	2.20%-4.10%	2.00%-4.00%	2.00%-4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2038	September 1, 2019/2034	September 1, 2019/2040
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2022*	September 1, 2023*	September 1, 2024*

\* Or any date thereafter, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2010 term bonds maturing on September 1, 2030, and September 1, 2034, are subject to mandatory redemption beginning September 1, 2028, and September 1, 2031, respectively. Series 2012 term bonds maturing on September 1, 2037, are subject to mandatory redemption beginning September 1, 2028. Series 2013 term bonds maturing on September 1, 2037, are subject to mandatory redemption beginning September 1, 2031. Series 2014 term bonds maturing on September 1, 2029, September 1, 2032, September 1, 2034, September 1, 2036 and September 1, 2038, are subject to mandatory redemption beginning September 1, 2028, September 1, 2030, September 1, 2033, September 1, 2035 and September 1, 2037, respectively. Series 2016 term bonds maturing on September 1, 2024, September 1, 2026, September 1, 2028, and September 1, 2030 are subject to mandatory redemption beginning September 1, 2023, September 1, 2025, September 1, 2027 and September 1, 2029, respectively.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

The following is a summary of transactions regarding the changes in long-term liabilities for the year ended March 31, 2019:

	April 1, 2018	Additions	Retirements	March 31, 2019
Bonds Payable	\$ 16,745,000	\$	\$ 585,000	\$ 16,160,000
Unamortized Premium	154,979		9,724	145,255
Bonds Payable, Net	<u>\$ 16,899,979</u>	<u>\$ -0-</u>	<u>\$ 594,724</u>	<u>\$ 16,305,255</u>
			Amount Due Within One Year	\$ 610,000
			Amount Due After One Year	15,695,255
			Bonds Payable, Net	<u>\$ 16,305,255</u>

As of March 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 610,000	\$ 576,127	\$ 1,186,127
2021	625,000	556,103	1,181,103
2022	645,000	534,503	1,179,503
2023	650,000	511,962	1,161,962
2024	685,000	490,738	1,175,738
2025-2029	3,735,000	2,109,989	5,844,989
2030-2034	4,425,000	1,356,288	5,781,288
2035-2039	4,035,000	485,762	4,520,762
2040-2041	750,000	26,251	776,251
	<u>\$ 16,160,000</u>	<u>\$ 6,647,723</u>	<u>\$ 22,807,723</u>

As of March 31, 2019, the District had authorized but unissued bonds in the amount of \$59,675,000 for utility facilities and refunding purposes.

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

During the year ended March 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.50 per \$100 of assessed valuation, which resulted in a tax levy of \$1,338,515 on the adjusted taxable valuation of \$267,702,974 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

The District's tax calendar is as follows:

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

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

The bond resolutions state that any profits realized from or interest accruing on investments shall belong to the fund from which the monies for such investments were taken; provided, however, that at the discretion of the Board of Directors, the profits realized from interest accruing on investments made from any fund may be transferred to the Debt Service Fund.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross debt proceeds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the issuance of the debt.

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

In accordance with the Series 2017 bond resolution, a portion of the bond proceeds were deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve – April 1, 2018	\$ 140,245
Less: Bond Interest Paid	<u>140,245</u>
Bond Interest Reserve, March 31, 2019	<u>\$ -0-</u>



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$3,559,534 and the bank balance was \$3,562,830. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2019, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 1,064,881
DEBT SERVICE FUND	2,137,993
CAPITAL PROJECTS FUND	<u>356,660</u>
TOTAL DEPOSITS	<u><u>\$ 3,559,534</u></u>

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

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

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act. As of March 31, 2019, the District had no investments.

Restrictions

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

**NOTE 6. CAPITAL AND INTANGIBLE ASSETS**

Capital asset activity for the fiscal year ended March 31, 2019:

	April 1, 2018	Increases	Decreases	March 31, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 123,521	\$ -0-	\$ -0-	\$ 123,521

In accordance with the Utility Functions and Services Allocation Agreement in Note 8, the District has constructed water and wastewater facilities needed to serve the land within its boundaries. The City has accepted conveyance of all the facilities constructed within the District. The District has recognized an intangible asset for the cost of assets conveyed to the City. Intangible assets, net of accumulated amortization, totaled \$13,900,384 as of March 31, 2019. Current year amortization expense was \$364,555.

**NOTE 7. MAINTENANCE TAX**

On May 12, 2007, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended March 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.195 per \$100 of assessed valuation, which resulted in a tax levy of \$522,021 on the taxable valuation of \$267,702,974 for the 2018 tax year.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 8. UTILITY FUNCTIONS AND SERVICES ALLOCATION AGREEMENT**

On October 8, 2007, the District entered into a Utility Functions and Services Allocation Agreement with the City of Houston, Texas (the "City"). The Agreement acknowledges that the District is within the corporate limits of the City. The Agreement provides that the District will acquire for the benefit of and conveyance to the City the water and wastewater facilities needed to serve lands being developed within and near the boundaries of the District. The District will make water and wastewater reservation requests for capacity to the City and will pay all impact fees as required under the Code of Ordinances for each water and wastewater reservation.

As facilities are acquired, constructed and conveyed to the City, the City will assume responsibility for operation and maintenance of the water and sewer facilities. The City will bill and collect from the customers of the facilities at the same rates as those the City charges its other customers.

The parties estimate that the total cost of design and construction of the facilities by the District is \$24,408,399. The City's share of the cost of the facilities shall not exceed \$6,240,809 plus impact fees, with the District financing the balance of the costs. The City shall make periodic payments to the District for the facilities that have been accepted by the City at the completion of each construction phase. Construction costs incurred to date are \$21,468,417 and the City's share of these costs is \$5,559,748. The District has received a total of \$4,938,339 from the City leaving a balance of \$621,409 as a receivable at March 31, 2019.

In addition to the payments described above, the District shall receive a credit from the City for the cost of water and wastewater impact fees required to serve the District, subject to the following: for every \$2.4 million expended by the District for the facilities, a 144 service unit credit will be given for water and wastewater impact fees, for development within the District, up to 1,441 single family service units.

**NOTE 9. DEVELOPER CONTRIBUTIONS**

The District has entered into various agreements with Developers for the financing of operations. The Developers intend to develop land within the District and will construct certain facilities necessary to provide water, sewer and drainage services for the development. The Developers will advance funds to the District for operations and maintenance of certain utilities necessary to provide water, sewer and drainage service to the District and pay certain administrative expenses prior to other sufficient revenues becoming available to the District. The Developers have advanced funds on behalf of the District to pay certain fees and expenses in connection with the creation of the District, including legal and engineering fees. The District intends to reimburse the Developers for such funds advanced to the District from a future bond issue.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 9. DEVELOPER CONTRIBUTIONS (Continued)**

As of March 31, 2019, the Developers had advanced \$1,516,759 to the District to cover operating expenditures and capital costs of the District. The District has reimbursed the Developer \$437,145 related to these costs, leaving an unpaid balance of \$1,079,614. This amount has been recorded in the Statement of Net Position as a Due to Developer.

**NOTE 10. UNREIMBURSED COSTS**

Developers within the District have made expenditures on behalf of the District for various projects for which the District has not sold bonds. In accordance with the financing agreements with the Developers, the District has an obligation to reimburse the Developers for these costs from a future bond issue. As of March 31, 2019, the District has recorded an amount of \$2,068,395 as due to the Developers for completed projects. This amount has been recorded in the Statement of Net Position.

**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 natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, boiler and machinery, automobile liability, pollution liability and directors liability. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 12. SUBSEQUENT EVENT – REFUNDING BOND SALE**

On June 25, 2019, subsequent to year end, the District plans to issue \$2,470,000 of Unlimited Tax Refunding Bonds, Series 2019. The net proceeds of \$2,582,331 plus \$36,500 of available Debt Service Fund monies will be used to retire portions of the Series 2010 and Series 2012 bonds in the amounts of \$1,080,000 and \$1,355,000, respectively. As a result, the refunding bonds will be considered to be defeased and the liability for these bonds will be removed from the Statement of Net Position. The effect of the refunding will decrease total debt service by \$213,187 and obtain net present value savings of \$153,331.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 13. USE OF SURPLUS FUNDS**

In accordance with Rule 30 T.A.C. 293.83(c)(3) of the Commission, the District approved the use of surplus Capital Projects Fund monies to cover the costs for the drainage outfall modification for Waters Edge, Section 13. During the current fiscal year, the District expended \$90,565 of Capital Projects Fund monies on this project.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2019**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 342,857	\$ 433,289	\$ 521,784	\$ 88,495
Investment and Miscellaneous Revenues	<u>1,000</u>	<u>1,000</u>	<u>1,950</u>	<u>950</u>
<b>TOTAL REVENUES</b>	<u>\$ 343,857</u>	<u>\$ 434,289</u>	<u>\$ 523,734</u>	<u>\$ 89,445</u>
<b>EXPENDITURES</b>				
Services Operations:				
Professional Fees	\$ 94,750	\$ 94,750	\$ 139,276	\$ (44,526)
Contracted Services	14,700	14,700	15,469	(769)
Groundwater Reduction Plan Fee	60,000	60,000	1,045	58,955
Repairs and Maintenance	75,000	75,000	22,227	52,773
Other	<u>20,089</u>	<u>20,089</u>	<u>23,943</u>	<u>(3,854)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 264,539</u>	<u>\$ 264,539</u>	<u>\$ 201,960</u>	<u>\$ 62,579</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 79,318	\$ 169,750	\$ 321,774	\$ 152,024
<b>FUND BALANCE - APRIL 1, 2018</b>	<u>735,711</u>	<u>735,711</u>	<u>735,711</u>	
<b>FUND BALANCE - MARCH 31, 2019</b>	<u>\$ 815,029</u>	<u>\$ 905,461</u>	<u>\$ 1,057,485</u>	<u>\$ 152,024</u>

See accompanying independent auditor's report.



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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**

**SUPPLEMENTARY INFORMATION REQUIRED BY THE**

**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**MARCH 31, 2019**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2019**

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

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

The District operates as an alter ego of the City of Houston (the "City"). In this arrangement, the water, wastewater and certain storm water facilities constructed by the District will be conveyed to the City. The City will own, operate and maintain the facilities and operate the facilities for the benefit of the customers within the District. Therefore, the District will not be responsible for operation of the utilities within its boundaries. The District will retain ownership of the storm water detention facilities and certain storm water quality features within its boundaries.

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order approved or effective N/A.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	N/A				
WASTEWATER:	N/A				
SURCHARGE:	N/A				

Total monthly charges per 10,000 gallons usage: Water: \$N/A Wastewater: \$N/A Surcharge: \$N/A Total: \$N/A

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450  
SERVICES AND RATES  
FOR THE YEAR ENDED MARCH 31, 2019**

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

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"			x 1.0	
1"			x 2.5	
1½"			x 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>N/A</u>	<u>N/A</u>		<u>N/A</u>
Total Wastewater Connections	<u>N/A</u>	<u>N/A</u>	x 1.0	<u>N/A</u>

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

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	N/A	<u>N/A%</u>
Gallons purchased:	N/A	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☒ Partly ☐ Not at all ☐

City in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 11,250
Engineering	61,523
Legal	<u>66,503</u>
TOTAL PROFESSIONAL FEES	<u>\$ 139,276</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 15,469</u>
REPAIRS AND MAINTENANCE	<u>\$ 22,227</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 8,850
Insurance	2,872
Office Supplies and Postage	1,216
Payroll Taxes	607
Travel and Meetings	1,598
Groundwater Reduction Plan Fee	1,045
Other	<u>8,800</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 24,988</u>
TOTAL EXPENDITURES	<u>\$ 201,960</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
APRIL 1, 2018	\$	9,480	\$	38,253
Adjustments to Beginning				
Balance		<u>894</u>	<u>3,558</u>	\$ 41,811
Original 2018 Tax Levy	\$	508,967	\$	1,305,043
Adjustment to 2018 Tax Levy		<u>13,054</u>	<u>33,472</u>	<u>1,338,515</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 532,395		\$ 1,380,326
TAX COLLECTIONS:				
Prior Years	\$	7,368	\$	31,834
Current Year		<u>514,416</u>	<u>1,319,015</u>	<u>1,350,849</u>
TAXES RECEIVABLE -				
MARCH 31, 2019		<u>\$ 10,611</u>		<u>\$ 29,477</u>
TAXES RECEIVABLE BY				
YEAR:				
2018		\$ 7,605		\$ 19,500
2017		725		3,199
2016		378		1,394
2015		351		1,172
2014		718		911
2013		282		904
2012		228		850
2011		182		798
2010		<u>142</u>		<u>749</u>
TOTAL		\$ 10,611		\$ 29,477

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 46,224,905	\$ 44,339,953	\$ 42,258,476	\$ 32,492,079
Improvements	227,761,458	189,848,342	146,311,450	100,030,069
Personal Property	1,620,805	2,229,850	1,252,010	796,438
Exemptions	<u>(7,904,194)</u>	<u>(7,402,326)</u>	<u>(8,803,471)</u>	<u>(2,362,011)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 267,702,974</u>	<u>\$ 229,015,819</u>	<u>\$ 181,018,465</u>	<u>\$ 130,956,575</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.500	\$ 0.640	\$ 0.64000	\$ 0.61500
Maintenance	<u>0.195</u>	<u>0.145</u>	<u>0.17358</u>	<u>0.18388</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.695</u>	<u>\$ 0.785</u>	<u>\$ 0.81358</u>	<u>\$ 0.79888</u>
ADJUSTED TAX LEVY*	<u>\$ 1,860,536</u>	<u>\$ 1,797,774</u>	<u>\$ 1,472,730</u>	<u>\$ 1,046,291</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.54 %</u>	<u>99.78 %</u>	<u>99.88 %</u>	<u>99.85 %</u>

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

Maximum Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voter on May 12, 2007.

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 0			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 50,000	\$ 55,095	\$ 105,095
2021	50,000	53,095	103,095
2022	55,000	50,940	105,940
2023	55,000	48,589	103,589
2024	60,000	46,042	106,042
2025	65,000	43,197	108,197
2026	65,000	40,199	105,199
2027	70,000	37,051	107,051
2028	75,000	33,578	108,578
2029	80,000	29,750	109,750
2030	80,000	25,750	105,750
2031	85,000	21,625	106,625
2032	90,000	17,250	107,250
2033	95,000	12,625	107,625
2034	100,000	7,750	107,750
2035	105,000	2,625	107,625
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 1,180,000</u>	<u>\$ 525,161</u>	<u>\$ 1,705,161</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 2				
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total	
2020	\$ 50,000	\$ 55,188	\$	105,188
2021	50,000	54,000		104,000
2022	55,000	52,619		107,619
2023	55,000	51,037		106,037
2024	60,000	49,275		109,275
2025	65,000	47,281		112,281
2026	65,000	45,088		110,088
2027	70,000	42,681		112,681
2028	75,000	40,006		115,006
2029	75,000	37,100		112,100
2030	80,000	34,000		114,000
2031	85,000	30,700		115,700
2032	90,000	27,200		117,200
2033	95,000	23,500		118,500
2034	100,000	19,600		119,600
2035	100,000	15,600		115,600
2036	105,000	11,500		116,500
2037	115,000	7,100		122,100
2038	120,000	2,400		122,400
2039				
2040				
2041				
	<u>\$ 1,510,000</u>	<u>\$ 645,875</u>	<u>\$</u>	<u>2,155,875</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 3			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	55,000	75,113	130,113
2021	60,000	73,387	133,387
2022	60,000	71,513	131,513
2023	65,000	69,400	134,400
2024	70,000	66,950	136,950
2025	70,000	64,237	134,237
2026	75,000	61,244	136,244
2027	80,000	57,850	137,850
2028	80,000	54,250	134,250
2029	85,000	50,484	135,484
2030	90,000	46,381	136,381
2031	95,000	41,988	136,988
2032	100,000	37,294	137,294
2033	105,000	32,297	137,297
2034	110,000	27,056	137,056
2035	115,000	21,572	136,572
2036	120,000	15,844	135,844
2037	130,000	9,750	139,750
2038	135,000	3,291	138,291
2039			
2040			
2041			
	<u>\$ 1,700,000</u>	<u>\$ 879,901</u>	<u>\$ 2,579,901</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 4			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 75,000	\$ 99,250	\$ 174,250
2021	80,000	97,465	177,465
2022	85,000	95,400	180,400
2023	85,000	93,105	178,105
2024	95,000	90,490	185,490
2025	100,000	87,502	187,502
2026	105,000	84,168	189,168
2027	110,000	80,471	190,471
2028	115,000	76,462	191,462
2029	125,000	72,034	197,034
2030	130,000	67,253	197,253
2031	140,000	62,015	202,015
2032	150,000	56,215	206,215
2033	155,000	50,115	205,115
2034	165,000	43,715	208,715
2035	175,000	36,915	211,915
2036	185,000	29,623	214,623
2037	200,000	21,730	221,730
2038	210,000	13,325	223,325
2039	220,000	4,510	224,510
2040			
2041			
	<u>\$ 2,705,000</u>	<u>\$ 1,261,763</u>	<u>\$ 3,966,763</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 6 R E F U N D I N G				
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total	
2020	\$ 130,000	\$ 102,900	\$	232,900
2021	135,000	99,575		234,575
2022	140,000	95,450		235,450
2023	140,000	91,250		231,250
2024	150,000	86,900		236,900
2025	155,000	82,325		237,325
2026	160,000	76,800		236,800
2027	165,000	70,300		235,300
2028	175,000	63,500		238,500
2029	180,000	56,400		236,400
2030	190,000	49,000		239,000
2031	200,000	41,200		241,200
2032	205,000	33,100		238,100
2033	215,000	24,700		239,700
2034	225,000	15,900		240,900
2035	285,000	5,700		290,700
2036				
2037				
2038				
2039				
2040				
2041				
	<u>\$ 2,850,000</u>	<u>\$ 995,000</u>	<u>\$</u>	<u>3,845,000</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

S E R I E S - 2 0 1 7			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 250,000	\$ 188,581	\$ 438,581
2021	250,000	178,581	428,581
2022	250,000	168,581	418,581
2023	250,000	158,581	408,581
2024	250,000	151,081	401,081
2025	250,000	146,081	396,081
2026	250,000	141,081	391,081
2027	250,000	135,769	385,769
2028	250,000	129,831	379,831
2029	250,000	123,269	373,269
2030	250,000	116,394	366,394
2031	250,000	109,206	359,206
2032	250,000	101,706	351,706
2033	250,000	94,203	344,203
2034	250,000	86,550	336,550
2035	225,000	79,128	304,128
2036	365,000	69,681	434,681
2037	375,000	57,656	432,656
2038	375,000	45,234	420,234
2039	375,000	32,578	407,578
2040	375,000	19,688	394,688
2041	375,000	6,563	381,563
	<u>\$ 6,215,000</u>	<u>\$ 2,340,023</u>	<u>\$ 8,555,023</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2019**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 610,000	\$ 576,127	\$ 1,186,127
2021	625,000	556,103	1,181,103
2022	645,000	534,503	1,179,503
2023	650,000	511,962	1,161,962
2024	685,000	490,738	1,175,738
2025	705,000	470,623	1,175,623
2026	720,000	448,580	1,168,580
2027	745,000	424,122	1,169,122
2028	770,000	397,627	1,167,627
2029	795,000	369,037	1,164,037
2030	820,000	338,778	1,158,778
2031	855,000	306,734	1,161,734
2032	885,000	272,765	1,157,765
2033	915,000	237,440	1,152,440
2034	950,000	200,571	1,150,571
2035	1,005,000	161,540	1,166,540
2036	775,000	126,648	901,648
2037	820,000	96,236	916,236
2038	840,000	64,250	904,250
2039	595,000	37,088	632,088
2040	375,000	19,688	394,688
2041	375,000	6,563	381,563
	<u>\$ 16,160,000</u>	<u>\$ 6,647,723</u>	<u>\$ 22,807,723</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2018
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2009	\$ 3,400,000	\$ 95,000
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2010	1,500,000	1,225,000
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2012	1,750,000	1,555,000
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2013	1,930,000	1,755,000
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2014	2,900,000	2,775,000
Harris County Municipal Utility District No. 450 Unlimited Tax Refunding Bonds - Series 2016	2,900,000	2,875,000
Harris County Municipal Utility District No. 450 Unlimited Tax Bonds - Series 2017	<u>6,465,000</u>	<u>6,465,000</u>
TOTAL	<u>\$ 20,845,000</u>	<u>\$ 16,745,000</u>

See accompanying independent auditor's report.



Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding March 31, 2019	Paying Agent
	Principal	Interest		
\$	\$ 95,000	\$ 2,185	\$ -0-	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	45,000	56,973	1,180,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	45,000	56,200	1,510,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	55,000	76,762	1,700,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	70,000	100,775	2,705,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	25,000	104,450	2,850,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	250,000	198,581	6,215,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
\$ - 0 -	\$ 585,000	\$ 595,926	\$ 16,160,000	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2019**

Bond Authority:	<u>Tax and Refunding Bonds*</u>
Amount Authorized by Voters	\$ 77,800,000
Amount Issued	<u>18,125,000</u>
Remaining to be Issued	<u>\$ 59,675,000</u>

Debt Service Fund cash and investment balances as of March 31, 2019:	\$ <u>2,137,993</u>
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Average annual debt service payment (principal and interest) for remaining term of all debt:	\$ <u>1,036,715</u>
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See Note 3 for interest rate, interest payment dates and maturity dates.

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 521,784	\$ 335,384	\$ 315,947
Investment and Miscellaneous Revenues	1,950	1,192	803
<b>TOTAL REVENUES</b>	<u>\$ 523,734</u>	<u>\$ 336,576</u>	<u>\$ 316,750</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 139,276	\$ 74,589	\$ 102,506
Contracted Services	15,469	15,163	15,700
Utilities			
Groundwater Reduction Plan Fee	1,045	6,355	10,899
Repairs and Maintenance	22,227		55,156
Other	23,943	84,025	37,450
Capital Outlay		4,285	465,427
<b>TOTAL EXPENDITURES</b>	<u>\$ 201,960</u>	<u>\$ 184,417</u>	<u>\$ 687,138</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 321,774</u>	<u>\$ 152,159</u>	<u>\$ (370,388)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	\$	\$ 52,463	\$
Developer Advances			115,000
City of Houston Share of Capital Assets			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ 52,463</u>	<u>\$ 115,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 321,774	\$ 204,622	\$ (255,388)
<b>BEGINNING FUND BALANCE</b>	<u>735,711</u>	<u>531,089</u>	<u>786,477</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,057,485</u>	<u>\$ 735,711</u>	<u>\$ 531,089</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2016	2015	2019	2018	2017	2016	2015
\$ 254,500	\$ 344,252	99.6 %	99.6 %	99.7 %	99.6 %	99.8 %
1,042	784	0.4	0.4	0.3	0.4	0.2
<u>\$ 255,542</u>	<u>\$ 345,036</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 130,505	\$ 128,459	26.6 %	22.2 %	32.4 %	51.1 %	37.2 %
15,550	14,100	3.0	4.5	5.0	6.1	4.1
	588					0.2
8,000	10,977	0.2	1.9	3.4	3.1	3.2
	8,000	4.2		17.4		2.3
16,880	23,869	4.6	25.0	11.8	6.6	6.9
<u>1,284,236</u>			<u>1.3</u>	<u>146.9</u>	<u>502.6</u>	
<u>\$ 1,455,171</u>	<u>\$ 185,993</u>	<u>38.6 %</u>	<u>54.9 %</u>	<u>216.9 %</u>	<u>569.5 %</u>	<u>53.9 %</u>
\$ (1,199,629)	\$ 159,043	<u>61.4 %</u>	<u>45.1 %</u>	<u>(116.9) %</u>	<u>(469.5) %</u>	<u>46.1 %</u>
\$ 29	\$					
800,150	76,464					
<u>850,378</u>						
<u>\$ 1,650,557</u>	<u>\$ 76,464</u>					
\$ 450,928	\$ 235,507					
<u>335,549</u>	<u>100,042</u>					
<u>\$ 786,477</u>	<u>\$ 335,549</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 1,350,849	\$ 1,472,492	\$ 1,161,641
Penalty and Interest	8,487	12,619	13,025
Investment and Miscellaneous Revenues	5,953	3,030	907
<b>TOTAL REVENUES</b>	<u>\$ 1,365,289</u>	<u>\$ 1,488,141</u>	<u>\$ 1,175,573</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 39,196	\$ 29,907	\$ 29,064
Debt Service Principal	585,000	320,000	280,000
Debt Service Interest and Fees	599,926	474,881	417,997
Bond Issuance Costs			
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,224,122</u>	<u>\$ 824,788</u>	<u>\$ 727,061</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 141,167</u>	<u>\$ 663,353</u>	<u>\$ 448,512</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Payment to Refunding Bond Escrow Agent	\$	\$	\$
Bond Premium			
Long-Term Debt Issued		203,581	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ 203,581</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 141,167	\$ 866,934	\$ 448,512
<b>BEGINNING FUND BALANCE</b>	1,994,124	1,127,190	678,678
<b>ENDING FUND BALANCE</b>	<u>\$ 2,135,291</u>	<u>\$ 1,994,124</u>	<u>\$ 1,127,190</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2016	2015	2019	2018	2017	2016	2015
\$ 813,672	\$ 438,890	99.0 %	99.0 %	98.8 %	99.2 %	99.2 %
5,722	2,490	0.6	0.8	1.1	0.7	0.6
655	1,041	0.4	0.2	0.1	0.1	0.2
<u>\$ 820,049</u>	<u>\$ 442,421</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 23,004	\$ 20,104	2.9 %	2.0 %	2.5 %	2.8 %	4.5 %
205,000	185,000	42.8	21.5	23.8	25.0	41.8
480,795	405,009	43.9	31.9	35.6	58.6	91.5
139,261					17.0	
<u>\$ 848,060</u>	<u>\$ 610,113</u>	<u>89.6 %</u>	<u>55.4 %</u>	<u>61.9 %</u>	<u>103.4 %</u>	<u>137.8 %</u>
\$ (28,011)	\$ (167,692)	10.4 %	44.6 %	38.1 %	(3.4) %	(37.8) %
\$ (2,929,741)	\$					
175,040						
2,900,000	103,975					
<u>\$ 145,299</u>	<u>\$ 103,975</u>					
\$ 117,288	\$ (63,717)					
561,390	625,107					
<u>\$ 678,678</u>	<u>\$ 561,390</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.





**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 450**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2019**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2019</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	02/26/07	\$ 67,140 \$ -0-	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	03/10/08	\$ 11,250 \$ 8,150	Auditor AUP Related
Myrtle Cruz, Inc.	04/09/07	\$ 16,357	Bookkeeper
Kimley-Horn and Associates, Inc.	06/11/07	\$ 86,253	Engineer
Masterson Advisors LLC	05/14/18	\$ -0-	Financial Advisor
Mary Jarmon	12/03/13	\$ -0-	Investment Officer
Assessments of the Southwest, Inc.	04/09/07	\$ 13,058	Tax Assessor/ Collector
Perdue, Brandon, Fielder, Collins & Mott, LLP	04/14/08	\$ 3,177	Delinquent Tax Attorney

See accompanying independent auditor's report.