

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 "A1"
See "MUNICIPAL BOND RATING AND
MUNICIPAL BOND INSURANCE" herein.

\$9,425,000*

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 138
(A political subdivision of the State of Texas located within Fort Bend County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

Dated: June 1, 2020

Due: March 1, as shown below

The bonds described above (the "Bonds") are obligations solely of Fort Bend County Municipal Utility District No. 138 (the "District") and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land or any entity other than the District.

Principal of the Bonds is payable at maturity 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 March 1 and September 1, commencing September 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form and in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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

MATURITY SCHEDULE

Due	Principal*	Interest	Initial	CUSIP	Due	Principal*	Interest	Initial	CUSIP
(March 1)	Amount	Rate	Reoffering	Number (b)	(March 1)	Amount	Rate	Reoffering	Number (b)
			Yield (a)					Yield (a)	
2021	\$ 710,000				2028	\$ 750,000	(c)		
2022	720,000				2029	755,000	(c)		
2023	720,000				2030	765,000	(c)		
2024	735,000				2031	765,000	(c)		
2025	740,000				2032	770,000	(c)		
2026	740,000				2033	255,000	(c)		
2027	750,000	(c)			2034	250,000	(c)		

- (a) Initial 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 yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from June 1, 2020 to the date fixed for delivery is to be added to the price.
- (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) Bonds maturing on or after March 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time-to- time in part, on March 1, 2026, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent Interest Payment Date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

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 in the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision. The proceeds of the Bonds will be applied to refund certain outstanding bonds of the District and to pay certain costs in connection with the issuance of the Bonds in order to achieve gross and net present value savings. See "PLAN OF FINANCING."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Certain other legal matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds in book-entry form through the facilities of the DTC is expected on or about June 17, 2020.

SAMCO CAPITAL

*Preliminary; subject to change.

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

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from 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

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, 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/minus a net premium/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.”

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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 OUTBREAK (COVID-19)

General...

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

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values 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.

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 rating. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outbreak (COVID-19).”

RECENT EXTREME WEATHER EVENTS; HURRICANE HARVEY

General...

The greater Houston area, including Fort Bend County, is subject to occasional severe weather events, including tropical storms and hurricanes. 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...

The City of Sugar Land, Texas (the “City”) operates the water and sewer system in the District. According to reports from the City, the City’s water and wastewater system serving the District sustained no material damage and there was no interruption of water and sewer service from the City as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial businesses within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

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 April 1, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 704 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located approximately 22 miles southwest of the central downtown business district of the City of Houston and lies wholly within the corporate boundaries of the City. The District is also located within the boundaries of the Fort Bend Independent School District and Fort Bend County Levee Improvement District No. 17. Access to the District is provided by Interstate Highway 69 to University Boulevard. See “THE DISTRICT.”
<i>Telfair...</i>	The District is part of the 2,018 acre master-planned community of Telfair consisting of the District and three other municipal utility districts and an overlapping levee improvement district. Approximately 2,839 single-family residential lots have been constructed in Telfair, including 1,102 in the District. The Houston Museum of Natural Science’s Sugar Land branch is located in a 43,000 square foot historic building located in Telfair in the District. Recreational amenities within Telfair include a 2,200 square foot meeting complex and central sales office, a lake system, a greenbelt system, over five miles of landscaped trails, eleven neighborhood parks each with open space and playground and two recreational pools, a sand volley ball court and a playground.
<i>Status of Development...</i>	<p>Single family development consisting of 1,102 residential lots on approximately 390 acres has been completed. Homes have been constructed on all such lots and range in price from approximately \$275,000 to \$1,000,000. Residential occupancy for the District is not available from the City.</p> <p>Telfair Central is home to the Houston Museum of Natural Science-Sugar Land located in a 43,000 square foot historic building (approximately 5 acres), which is tax-exempt. The Telfair Community Association owns Telfair Central Hall, a pool and tennis court facilities (approximately 7 acres), which is also tax exempt. In addition, a Montessori school is located on approximately 2 acres within the development.</p> <p>Development of the 14-acre Museum Square at Telfair commercial development is complete and includes the Telfair Montessori School on approximately 2 acres, four retail centers on a total of approximately 6 acres, Oyster Creek Animal Hospital on approximately 1 acre and a medical office building on approximately 2 acres. The Exchange at Telfair includes the Exchange at Telfair shopping center, Phases I and II, on approximately 19 acres and includes various retail sites, fast food establishments, a gas station and two multi-story office buildings. One retail building is complete along Branford Place on approximately 1 acre. The Telfair East Business Park on approximately 18 acres includes three medical office buildings constructed on a total of 8 acres and an assisted living facility constructed on approximately 3 acres. University Commons Phase 1 has been constructed on approximately 14 acres which includes a Burlington Coat Factory, Michaels, CVS Pharmacy, Amegy Bank, and other retail and food outlets. Adjacent to University Commons is a Costco store located on approximately 16 acres, a Zaxby’s restaurant on approximately 1 acre and a multi-tenant retail center on approximately 4 acres. The Telfair Lofts apartment complex (317 units total) is located on approximately 11 acres. Approximately 15 acres are served with utilities for future commercial development. Approximately 187 acres are not developable and consist of rights-of-way, detention, open spaces, easements and utility sites. See “THE DISTRICT.”</p>
<i>Fort Bend Levee Improvement District No. 17...</i>	All of the land within Telfair lies within Fort Bend Levee Improvement District No. 17 (“LID 17”), which encompasses approximately 2,331 acres of land. LID 17 has constructed a system of a levee, detention ponds, channels and other drainage improvements, reclaiming land from the Brazos River flood-plain, including the land within the District, as well as public recreational facilities, and has financed the acquisition and/or construction of these facilities with the proceeds of its unlimited tax bonds. LID 17 currently has \$52,155,000 principal amount of bonds outstanding. In addition, LID 17 has approved preparation and submittal of a bond application to the TCEQ for \$12,000,000 principal amount unlimited tax levee improvement bonds and \$3,145,000 principal amount unlimited tax park bonds and expects approval and sale of such bonds in late 2020. LID 17 levied a total 2019 tax rate of \$0.56 per \$100 of assessed valuation (\$0.25 for debt service and \$0.31 for maintenance and operations). See “THE SYSTEM—Flood Protection” and “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes.”

*Sugar Land Tax Increment
Reinvestment Zone
No. 4...*

On December 15, 2009, the City approved the creation of the City of Sugar Land Tax Increment Reinvestment Zone No. 4 (the “TIRZ No. 4”) encompassing approximately 700 acres. The TIRZ No. 4 is located at the intersection of Interstate Highway 69 and University Boulevard. Approximately 161 acres of the District lie within the boundaries of the TIRZ No. 4 (commercial development only – no residential property). The purpose of the TIRZ No. 4 is to fund certain infrastructure costs for entertainment, office and higher density retail development within its boundaries. Currently, along with the City and Fort Bend County, the District and one of the other four Telfair districts, Fort Bend County Municipal Utility District No. 139 (“MUD 139”), are participants in the TIRZ No. 4.

The District receives a tax rebate (the “Rebate”) from the City in an amount equivalent to one-half of the total amount of taxes levied and collected upon the taxable property within the District by the City. The District has agreed to contribute to the TIRZ No. 4 the amount of Rebate the City pays the District from City property taxes on the commercial land within the District that is also within the boundaries of the TIRZ No. 4. The District’s obligation is for the term of the TIRZ No. 4 or the final maturity of the District’s debt, whichever is shorter. The District will continue to receive 100% of the Rebate associated with the residential development in the District. For tax year 2019, the Rebate amounted to \$320,364 and the District paid \$174,770 to TIRZ No. 4. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND” and “CITY OF SUGAR LAND TAX INCREMENT REINVESTMENT ZONE NO. 4.”

Payment Record...

The District has previously sold \$33,850,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities in six series, \$18,105,000 principal amount of unlimited tax road bonds in two series, \$18,825,000 principal amount of unlimited tax refunding bonds in three series and \$2,685,000 of unlimited tax road refunding bonds in one series. The District has a total of \$36,585,000 principal amount of bonds outstanding as of the date hereof (the “Outstanding Bonds”). The District has never defaulted in payment on its Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

THE BONDS

Description...

\$9,425,000* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) mature serially on March 1 in each year 2021 through 2034, both inclusive, in the principal amounts set forth on the cover page. Interest accrues from June 1, 2020, at the rates per annum set forth on the cover page hereof, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until stated maturity or prior redemption. The Bonds will be issued pursuant to a resolution authorizing the issuance of the Bonds adopted by the Board (the “Bond Resolution”), in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—Description.”

Book-Entry-Only...

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.”

Redemption...

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

Use of Proceeds...

Proceeds from the sale of the Bonds and 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 \$9,180,000* 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, \$27,405,000* principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

<i>Authority for Issuance...</i>	The Bonds are the fourth series of bonds issued out of an aggregate of \$56,200,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of refunding outstanding bonds of the District. 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, and the 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" "—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."
<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 upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of Fort Bend County, the State of Texas, the City, or any entity other than the District. See "THE BONDS—Source of Payment."
<i>Municipal Bond Rating And Bond Insurance...</i>	Moody's Investors Service ("Moody's") has assigned an underlying rating of "A1" to the District. The rating fee of Moody's will be paid for by the District; payment of any other rating fee 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. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance" and "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds will be designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
<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.
<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—Escrow Agreement and Defeasance of Refunded Bonds."
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$867,995,179	(a)
2020 Preliminary Taxable Assessed Valuation.....	\$928,727,566	(b)
Gross Direct Debt Outstanding	\$36,830,000*	(c)
Estimated Overlapping Debt	65,116,588	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$101,946,588*	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation.....	4.24%*	
2020 Preliminary Taxable Assessed Valuation	3.97%*	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	11.75%*	
2020 Preliminary Taxable Assessed Valuation	10.98%*	
Water, Sewer and Drainage Debt Service Fund Balance as of April 13, 2020.....	\$2,721,342	(e) (f)
Road Debt Service Fund Balance as of April 13, 2020	1,433,476	(e)
Total Funds Available for Debt Service as of April 13, 2020	\$4,154,818	(e)
Operating Funds Available as of April 13, 2020	\$1,495,817	
2019 Debt Service Tax Rate.....	\$0.28	(g)
2019 Maintenance Tax Rate.....	0.13	
2019 Total Tax Rate.....	\$0.41	
Average Annual Debt Service Requirement (2021-2034).....	\$3,029,875*	(c)
Maximum Debt Service Requirement (2021)	\$3,522,300*	(c)
Tax Rates Required to Pay Average Annual Debt Service (2021-2034) at a 95% Collection Rate:		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.37*	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.35*	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate:		
Based upon 2019 Certified Taxable Assessed Valuation	\$0.43*	(h)
Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.40*	(h)
Status of Developments as of April 1, 2020 (i):		
Total Residential Lots Developed.....	1,102	
Homes Completed	1,102	
Multi-Family (units).....	317	
Estimated Population.....	4,266	(j)

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020). Such amount is subject to protest, review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds" and "Debt Service Requirements."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt—Overlapping Taxes."
- (e) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Water, Sewer and Drainage Bonds (as defined herein) and a pro rata portion will be allocated to Road Bonds (as defined herein). See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds and the Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds (including the Bonds).
- (f) Approximately \$60,000* will be applied towards the issuance of the Bonds.
- (g) For tax year 2019, the total debt service rate of \$0.28 per \$100 of assessed valuation is comprised of \$0.17 for payment of Water, Sewer and Drainage Bond debt service and \$0.11 for payment of Road Bond debt service. See "TAX DATA."
- (h) The District receives a tax rebate from the City equivalent to fifty percent (50%) of the City taxes collected upon taxable value in the District. While the District anticipates using the City tax rebate to pay debt service on its bonded debt, such revenue is not pledged to the payment of the Bonds or the Remaining Outstanding Bonds and, therefore, is not included in the calculation of the tax rate requirements. The calculations above are performed without taking into account receipt of the City rebate (see "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND" and "CITY OF SUGAR LAND TAX INCREMENT REINVESTMENT ZONE NO. 4") and 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 assessed 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.
- (i) See "THE DISTRICT—Status of Development."
- (j) The estimated population assumes 95% occupancy of the total number of completed homes and multi family units and 3.5 individuals per occupied single-family residence and 2 individuals per multifamily unit. Residential occupancy for the District is not available from the City.

PRELIMINARY OFFICIAL STATEMENT

\$9,425,000*

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 138 *(A political subdivision of the State of Texas located within Fort Bend County)*

UNLIMITED TAX REFUNDING BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 138 (the “District”) of its \$9,425,000* 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, 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 and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

PLAN OF FINANCING

Purpose

At a bond election held within the District on September 10, 2005, voters of the District authorized the issuance of \$56,200,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds of the District. The Bonds are being issued pursuant to such authorization. The District has a total of \$36,585,000 principal amount of bonds outstanding as of the date hereof (the “Outstanding Bonds”).

The proceeds of the Bonds and available debt service funds, if any, will be used to currently refund and defease a portion of the District’s Unlimited Tax Bonds, Series 2012 and Unlimited Tax Refunding Bonds, Series 2013, collectively totaling \$9,180,000* (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” in this section. The bonds to be refunded are collectively referred to as the “Refunded Bonds.” See “Refunded Bonds” in this section. A total of \$27,405,000* 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,” and “—Debt Service Requirements.”

*Preliminary; subject to change.

Refunded Bonds

Proceeds of the Bonds and available debt service funds, if any, will be applied to currently refund 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 2012*	Series 2013*
2021	\$ 285,000 (a)	\$ 355,000
2022	285,000 (a)	370,000
2023	285,000 (b)	380,000
2024	285,000 (b)	400,000
2025	285,000 (c)	415,000
2026	285,000 (c)	425,000
2027	285,000 (d)	440,000
2028	285,000 (d)	450,000
2029	285,000 (d)	465,000
2030	285,000 (d)	485,000
2031	285,000 (e)	495,000
2032	285,000 (e)	510,000
2033	285,000 (f)	-
2034	285,000 (f)	-
	\$ 3,990,000	\$ 5,190,000

Redemption Date: September 1, 2020 September 1, 2020

- (a) Represents a term bond in the total principal amount of \$570,000, scheduled to mature on September 1, 2022.
- (b) Represents a term bond in the total principal amount of \$570,000, scheduled to mature on September 1, 2024.
- (c) Represents a term bond in the total principal amount of \$570,000, scheduled to mature on September 1, 2026.
- (d) Represents a term bond in the total principal amount of \$1,140,000, scheduled to mature on September 1, 2030.
- (e) Represents a term bond in the total principal amount of \$570,000, scheduled to mature on September 1, 2032.
- (f) Represents a term bond in the total principal amount of \$570,000, scheduled to mature on September 1, 2034.

Escrow Agreement and Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date (defined herein) and on the 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 available debt service funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and used to purchase United States Treasury Obligations (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 uninvested funds, 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 Refunded Bonds and will not be available to pay principal of and interest on the 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 resolutions 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, and available debt service funds, if any, will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds	\$ _____
Plus/Minus: Net Premium/Discount on the Bonds	_____
Plus: Transfer from Debt Service Fund	_____
Total Sources of Funds	\$ _____

Uses of Funds:

Deposit to the Escrow Account	\$ _____
Issuance Expenses and Underwriter's 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 March 1 and September 1, beginning September 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the 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 or amount, 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 of the District and are not the obligations of the State of Texas, Fort Bend County, the City of Sugar Land (the "City"), or any entity other than the District.

Funds

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

The District also maintains a Road Debt Service Fund that is not pledged to the Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds.

Accrued interest on the Bonds shall be deposited into the Water, Sewer and Drainage 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 Water, Sewer and Drainage Debt Service Fund.

Redemption Provisions

Bonds maturing on or after March 1, 2027 are subject to redemption at the option of the District in whole or from time to time in part, prior to their maturity dates on March 1, 2026, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). If less than all the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the District prior to the redemption date by such random method as the District shall deem fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding 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 on September 10, 2005, voters of the District authorized the issuance of \$56,200,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds of the District. The Bonds are being issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, an election held within the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, and the 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 is 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.

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.

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 bonds. 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.

Issuance of Additional Debt

The District voters have authorized the issuance of \$56,200,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds of the District and after issuance of the Bonds, the District will have \$54,167,275* principal amount of unlimited tax refunding bonds authorized but unissued.

The District's voters have authorized the issuance of \$86,450,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring water, sewer and drainage facilities and could authorize additional amounts. Currently, \$52,600,000 principal amount of unlimited tax bonds for a waterworks, sanitary sewer and storm sewer system remains authorized but unissued.

The District is authorized to construct road projects that serve the District. On May 12, 2007, voters of the District authorized the issuance of \$37,675,000 principal amount of unlimited tax bonds for the purpose of constructing road projects and for refunding purposes. Currently, the District has \$19,425,000 principal amount of unlimited tax road bonds authorized but unissued.

The District's voters authorized \$7,600,000 principal amount of unlimited tax bonds for the purpose of development and maintenance of recreational facilities at an election held within the District on September 10, 2005, all of which remain authorized but unissued. Current state law limits the outstanding principal amount of such bonds to an amount not to exceed one percent of the value of the taxable property in the District. Prior to the issuance of bonds for any purposes, the District must first obtain the consent of the City to issue such bonds. In addition, the issuance of bonds for water, sewer and drainage facilities or recreational facilities requires the approval of the Texas Commission on Environmental Quality (the "TCEQ"). The Board has not considered spending funds for recreational purposes. Public parks in Telfair are funded by LID 17 which overlays the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (a) approval of a detailed fire plan by the TCEQ; (b) authorization of the detailed fire plan and bonds for such purposes by the qualified voters in the District; (c) approval of bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. The Board has not considered a fire plan or calling an election at this time for such purposes. Because the District is located in the City, such service is provided by the City.

The issuance of additional bonds could dilute the investment security for the Bonds.

Dissolution of the District

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

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 in the Bond Resolution, or defaults in the observance 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-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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.

UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND

All land in the District is located within the corporate limits of the City. The City and the District have entered into the Utility Agreement, dated July 21, 2005 which obligates the District to acquire, construct and extend water, wastewater and storm drainage facilities (the “System”) to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City. The City then operates and maintains such facilities, and is responsible for establishing water and sewer rates and collecting charges for water and sewer service from District customers. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in the City. Pursuant to the Utility Agreement with the District, the City has agreed to rebate to the District one-half of City taxes collected on taxable property within the District. Pursuant to the Utility Agreement, the City agrees to pay a portion of such City taxes collected upon taxable property within the District beginning with taxes collected for the 2006 tax year, the District’s initial year of a debt service tax levy and continuing each year thereafter until the year 2046 and thereafter the City’s payment obligation shall cease and the City shall not pay any portion of City taxes to the District. The amount of rebate payment will vary with changes in the City’s tax rate and the District’s appraised valuation and growth rate. Consequently, the amounts subject to rebate by the City under the formula will vary from year to year. Any significant reduction in the amount of the tax rebate could increase the District’s rate of taxation.

The District will retain a security interest in the System to secure the City’s performance under the Utility Agreement until the Bonds and any future bonds have been discharged, at which time the District will execute a release of such security interest, and the City will then own the System free and clear, and the City’s obligation to make payments to the District will terminate if it has not previously ceased. The District and the City recognize that the District will levy its own annual ad valorem tax to secure additional funds for payment of the Remaining Outstanding Bonds, the Bonds and any additional bonds.

The District has agreed to extend the System to serve future users as necessary so that ultimately all landowners in the District will be in a position to receive services from the System; however, the District’s obligation to extend the System is conditioned upon continued development within the District, the City’s performance under the provisions of the Utility Agreement, and satisfaction of certain determinations of economic feasibility by the Board of Directors of the District and the TCEQ, and TCEQ approval and the ability of the District to sell bonds.

The Utility Agreement further requires the District to pay the City a capital recovery charge (the “City Connection Charge”) to purchase water supply and wastewater treatment capacity in the City’s existing system. The City Connection Charge is set by the City and may be amended without the District’s consent at any time. The District has purchased sufficient capacity to serve all of the single-family residential lots and commercial tracts developed in the District. See “THE BONDS—Sources of Payment,” “TAX DATA—Tax Adequacy for Debt Service,” and “THE SYSTEM—Water Supply and Wastewater Treatment.”

CITY OF SUGAR LAND TAX INCREMENT REINVESTMENT ZONE NO. 4

By law, a city may designate a portion of land inside of its corporate limits as a tax increment reinvestment zone. In the tax increment reinvestment zone, the base taxable assessed value of such tax increment reinvestment zone is established in the year in which it is created. Any incremental growth in the taxable assessed value over the base value is considered the “tax increment.” When a city designates a tax increment reinvestment zone, each taxing jurisdiction within such tax increment reinvestment zone may or may not agree to contribute all or a portion of its tax collections on the tax increment (“TIRZ Revenues”) to the tax increment reinvestment zone for use in financing projects within the tax increment reinvestment zone. A city is required to develop a tax increment reinvestment zone project plan and limit the use of TIRZ Revenues to financing those projects contained within the latest approved project plan.

On December 15, 2009, the City approved the creation of the City of Sugar Land Tax Increment Reinvestment Zone No. 4 (the “TIRZ No. 4”) encompassing approximately 700 acres. The TIRZ No. 4 is located at the intersection of Interstate Highway 69 and University Boulevard. Approximately 161 acres of the District lie within the boundaries of the TIRZ No. 4 (commercial development only – no residential property). The purpose of the TIRZ No. 4 is to fund certain infrastructure costs for entertainment, office and higher density retail development within its boundaries. Currently, along with the City and Fort Bend County, the District and one of the other four Telfair districts, Fort Bend County Municipal Utility District No. 139, are participants in the TIRZ No. 4.

The District receives a tax rebate (the “Rebate”) from the City in an amount equivalent to one-half of the total amount of taxes levied and collected upon the taxable property within the District by the City pursuant to the Utility Agreement as described above. The District has agreed to contribute to the TIRZ No. 4 the amount of Rebate the City pays the District from City property taxes on the commercial land within the District that is also within the boundaries of the TIRZ No. 4. The District’s obligation is for the term of the TIRZ No. 4 or the final maturity of the District’s debt, whichever is shorter. For tax year 2019, the Rebate amounted to \$320,364 and the District paid \$174,770 to TIRZ No. 4. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND” and “THE DISTRICT—Status of Development.”

TELFAIR

The District is part of the 2,018 acre master-planned community of Telfair in Sugar Land, Texas, consisting of the District and three other municipal utility districts and an overlapping levee improvement district. Approximately 2,839 single-family residential lots have been constructed in Telfair, including 1,102 lots in the District. Recreational amenities within Telfair include a lake system, a greenbelt system, over five miles of landscaped trails, eleven neighborhood parks each with open space and playground and two recreational pools, a sand volleyball court and a playground. In addition, the Houston Museum of Natural Science, Sugar Land branch, is located in a 43,000 square foot historic building in Telfair.

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated April 1, 2005, after a hearing on a petition for creation submitted by NNP-Telfair, LLC, the developer of the land in the District. 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 and Article III Section 52 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; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop roads and parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes. Prior to the issuance of any debt, the District must first obtain the consent of the City to issue any and all bonds. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District, although the City's Fire Department provides such services.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City, within whose boundaries the District lies, the District is required to observe certain requirements of the City which: limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, the construction and acquisition of roads and the development of park and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the 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 contains approximately 704 acres of land and is located approximately 22 miles southwest of the central downtown business district of the City of Houston and lies wholly within the boundaries of the City. The District also lies within the boundaries of the Fort Bend Independent School District and LID 17. Access to the District is provided by Interstate Highway 69 to University Boulevard.

Status of Development

Single family development consisting of 1,102 residential lots on approximately 390 acres has been completed. Homes have been constructed on all such lots and range in price from approximately \$275,000 to \$1,000,000. Residential occupancy for the District is not available from the City.

Telfair Central is home to the Houston Museum of Natural Science-Sugar Land located in a 43,000 square foot historic building (approximately 5 acres), which is tax-exempt. The Telfair Community Association owns Telfair Central Hall, a pool and tennis court facilities (approximately 7 acres), which is also tax exempt. In addition, a Montessori school is located on approximately 2 acres within the development.

Development of the 14-acre Museum Square at Telfair commercial development is complete and includes the Telfair Montessori School on approximately 2 acres, four retail centers on a total of approximately 6 acres, Oyster Creek Animal Hospital on approximately 1 acre and a medical office building on approximately 2 acres. The Exchange at Telfair includes the Exchange at Telfair shopping center, Phases I and II, on approximately 19 acres and includes various retail sites, fast food establishments, a gas station and two multi-story office buildings. One retail building is complete along Branford Place on approximately 1 acre. The Telfair East Business Park on approximately 18 acres includes three medical office buildings constructed on a total of 8 acres and an assisted living facility constructed on approximately 3 acres. University Commons Phase 1 has been constructed on approximately 14 acres which includes a Burlington Coat Factory, Michaels, CVS Pharmacy, Amegy Bank, and other retail and food outlets. Adjacent to University Commons is a Costco store located on approximately 16 acres, a Zaxby's restaurant on approximately 1 acre and a multi-tenant retail center on approximately 4 acres. The Telfair Lofts apartment complex (317 units total) is located on approximately 11 acres. Approximately 15 acres are served with utilities for future commercial development. Approximately 187 acres are not developable and consist of rights-of-way, detention, open spaces, easements and utility sites

The estimated residential population is approximately 4,266. This is based upon 95% occupancy of total number of completed homes and multi-family units and 3.5 persons per occupied single-family residence and 2.0 persons per occupied apartment unit. Residential occupancy for the District is not available from the City.

The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate <u>Acres</u>	<u>Lots/Units</u>
<i><u>Single-Family Residential</u></i>		
Section Three.....	13	37
Section Four.....	36	102
Section Seven.....	25	73
Section Eight.....	8	21
Section Eleven.....	25	67
Section Twelve.....	23	39
Section Sixteen.....	21	56
Section Seventeen.....	50	138
Section Eighteen.....	47	127
Section Twenty.....	18	48
Section Twenty-One.....	21	58
Section Twenty-Two.....	15	45
Section Twenty-Three.....	22	58
Section Thirty-Three.....	38	121
Section Thirty-Four.....	16	74
Section Thirty-Five.....	<u>12</u>	<u>38</u>
<i>Total Single-Family Residential.....</i>	<i>390</i>	<i>1,102</i>
<i>Houston Museum of Natural Science.....</i>	<i>5</i>	<i>-</i>
<i>Telfair Recreational Facilities.....</i>	<i>7</i>	<i>-</i>
<i>Commercial Tracts.....</i>	<i>104</i>	<i>-</i>
<i>Multi-Family.....</i>	<i>11</i>	<i>317</i>
<i>Non-Developable (a).....</i>	<i><u>187</u></i>	<i><u>-</u></i>
<i>Totals.....</i>	<i>704</i>	<i>1,419</i>

(a) Includes public rights-of-way, detention, open spaces, easements, recreation and utility sites (including levee related sites).

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 four-year terms and elections are held in May in even numbered years only. Two of the Board members reside within the District and the remaining three Board members own land within the District subject to a note and deed of trust in favor of NNP-Telfair, LLC. Directors have staggered four-year terms. 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>
Terrie Gornet	President	May 2024
David Keene	Vice President	May 2024
Mark John Assise	Secretary	May 2022
Gary Justice	Asst. Vice President	May 2022
Paula Stephens	Asst. Secretary	May 2024

District Consultants

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

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 bonds. 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 based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The District's audited financial statement for the fiscal year ended June 30, 2019, was prepared by McGrath & Co., PLLC. See APPENDIX A.

Engineer: The District's consulting engineer is LJA Engineering, Inc.

Tax Appraisal: The Fort Bend Central 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. Tax Tech, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

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

THE ROADS

The Road System (the "Roads") is comprised of University Boulevard, New Territory Boulevard, Telfair Avenue, Wescott Avenue, Wallingford Avenue, Meadowcroft Boulevard, Tarrington Avenue and Cotesworth Avenue. These Roads function as major thoroughfares and collectors by conveying all the traffic through Telfair to Interstate Highway 69 and State Highway 6. The City is responsible for ongoing maintenance of all public roads in the District. The District has financed portions of the Roads with proceeds of the previously issued unlimited tax road bonds and surplus operating and constructions funds.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage 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, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District and LID17. Fort Bend County, the City, and the Texas Department of Health also exercise regulatory jurisdiction over the District's system.

Water Supply and Wastewater Treatment

Customers of the District receive water and wastewater treatment service from the City pursuant to a Utility Agreement between the District and the City. As a condition of such service, the Utility Agreement obligates the District to acquire, construct, and extend the System to serve land in the District and, when completed in accordance with approved plans and specifications, to convey title to the System to the City. The City then operates and maintains the System, and is responsible for establishing water and sewer rates and billing and collecting for such services. The Utility Agreement provides that the District retains a security interest in the System to secure the City's performance under the Utility Agreement until the District's bonds have been fully paid, at which time the District will execute a release of such security interest, and the City will own the System unencumbered.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 1,102 lots in the District, approximately 11 acres of multi-family development, approximately 5 acres for the museum and approximately 7 acres of recreational facilities. Trunk lines have been constructed to serve approximately 104 acres of commercial tracts. See "THE DISTRICT—Status of Development."

Flood Protection

A majority of the land within the boundaries of the District is protected from the Brazos River flood plain by levees constructed and maintained by LID 17. All of the acreage within the District has been officially removed from the floodplain with the approval of the LID 17 Tract Four Letter of Map Revision (the "LOMR") issued by the Federal Emergency Management Agency ("FEMA") on August 21, 2009.

Flooding Due to Levee Breach or Overtopping: According to the LID 17 engineer, the LID 17 levee and drainage systems have been designed and constructed to all current standards. However, the levee system does not protect against all flooding scenarios and flooding could occur in the District as a result of 1) an overtopping of the levee, 2) a failure (or breach) of the levee system, or 3) localized rainfall in excess of the 100-year event. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

An overtopping of the levee could occur if the Brazos River or its tributaries reach flood stages higher than the 100-year event. The "100-year event" means the river elevation which has a statistical 1% chance of occurring in any given year. Current FEMA regulations require an earthen levee to be constructed a minimum of three feet above the level of a 100-year event. Fort Bend County, which regulates LID 17, requires an additional one foot above the 100-year floodplain.

In addition to the risk of overtopping, a portion of the District would experience flooding if the levee failed (or breached) while the Brazos River (or its tributaries) were at flood state of less than the 100-year event. To mitigate the risk, LID 17 performs weekly inspections of the levee to observe any visible deterioration of the levee that is in need to repair.

Federal Emergency Management Agency Requirements: FEMA commissioned a study to reevaluate the "base flood elevation" (commonly referred to as the 100-year flood plain elevation) in Fort Bend County. The study concluded that the level of the 100-year flood plain was higher than then existing standards. LID 17's engineer concluded that the levee constructed by LID 17 was of sufficient height to meet the anticipated new FEMA, City of Sugar Land and Fort Bend County requirements, and LID 17 submitted a levee recertification package to FEMA on November 12, 2009. LID 17 received approval of its recertification package on December 30, 2009. Fort Bend County released the final floodplain maps with an effective date of April 2, 2014. All of the acreage within the LID 17 boundary is outside the floodplain as reflected on the current floodplain maps

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area 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.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation	\$867,995,179	(a)
2020 Preliminary Taxable Assessed Valuation	\$928,727,566	(b)
Gross Direct Debt Outstanding	\$36,830,000*	(c)
Estimated Overlapping Debt	65,116,588	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$101,946,588*	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation.....	4.24%*	
2020 Preliminary Taxable Assessed Valuation	3.97%*	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	11.75%*	
2020 Preliminary Taxable Assessed Valuation	10.98%*	
Water, Sewer and Drainage Debt Service Fund Balance as of April 13, 2020.....	\$2,721,342	(e) (f)
Road Debt Service Fund Balance as of April 13, 2020	1,433,476	(e)
Total Funds Available for Debt Service as of April 13, 2020	\$4,154,818	(e)
Operating Funds Available as of April 13, 2020	\$1,495,817	

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020). Such amount is subject to protest, review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "—Outstanding Bonds" herein.
- (d) See "—Estimated Overlapping Debt" and "—Overlapping Taxes" herein.
- (e) Although all of the District's debt, including the Remaining Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Water, Sewer and Drainage Bonds (as defined herein) and a pro rata portion will be allocated to Road Bonds (as defined herein). See "—Outstanding Bonds" herein. The Water, Sewer and Drainage Debt Service Fund is not pledged to the Road Bonds and the Road Debt Service Fund is not pledged to the Water, Sewer and Drainage Bonds (including the Bonds).
- (f) Approximately \$60,000* will be applied towards the issuance of the Bonds.

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.

*Preliminary; subject to change.

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current amount 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*
2009A	\$ 5,085,000	\$ 205,000	\$ -	\$ 205,000
2012	6,285,000	4,275,000	3,990,000	285,000
2013 (b)	7,175,000	5,535,000	5,190,000	345,000
2014 (a)	14,900,000	11,175,000	-	11,175,000
2015	2,645,000	2,090,000	-	2,090,000
2016 (b)	8,765,000	7,765,000	-	7,765,000
2017 (b)	2,885,000	2,855,000	-	2,855,000
2019 (c)	2,685,000	2,685,000	-	2,685,000
Total	\$ 50,425,000	\$ 36,585,000	\$ 9,180,000	\$ 27,405,000 *
The Bonds				9,425,000 *
The Bonds and Remaining Outstanding Bonds				\$ 36,830,000 *

(a) Unlimited Tax Road Bonds.

(b) Unlimited Tax Refunding Bonds.

(c) Unlimited Tax Road Refunding Bonds.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$9,180,000* 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	\$ 3,001,154.38 (a)	\$ 147,584		\$ 47,125.00	\$ 47,125.00	\$ 2,900,695.00
2021	3,558,968.75	935,169	\$ 710,000	188,500.00	898,500.00	3,522,300.00
2022	3,525,018.75	930,619	720,000	174,300.00	894,300.00	3,488,700.00
2023	3,469,593.75	920,544	720,000	159,900.00	879,900.00	3,428,950.00
2024	3,420,093.75	918,694	735,000	145,500.00	880,500.00	3,381,900.00
2025	3,378,593.75	911,144	740,000	130,800.00	870,800.00	3,338,250.00
2026	3,320,318.75	898,069	740,000	116,000.00	856,000.00	3,278,250.00
2027	3,264,231.25	889,644	750,000	101,200.00	851,200.00	3,225,787.50
2028	3,211,768.75	875,694	750,000	86,200.00	836,200.00	3,172,275.00
2029	3,150,831.25	866,394	755,000	71,200.00	826,200.00	3,110,637.50
2030	3,094,950.00	863,313	765,000	56,100.00	821,100.00	3,052,737.50
2031	3,029,475.00	849,000	765,000	40,800.00	805,800.00	2,986,275.00
2032	2,975,531.25	839,006	770,000	25,500.00	795,500.00	2,932,025.00
2033	1,940,050.00	303,525	255,000	10,100.00	265,100.00	1,901,625.00
2034	1,637,800.00	294,263	250,000	5,000.00	255,000.00	1,598,537.50
Total	\$ 45,978,379.38	\$ 11,442,659	\$ 9,425,000	\$ 1,358,225.00	\$ 10,783,225.00	\$ 45,318,945.00

Maximum Annual Debt Service Requirement (2021) \$3,522,300*

Average Annual Debt Service Requirements (2021-2034)..... \$3,029,875*

(a) Excludes the March 1, 2020 debt service payment of \$611,154.

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	As of	Overlapping	
	Bonds		Percent	Amount
Fort Bend County.....	\$ 513,546,262	2/28/2020	1.22%	\$ 6,265,264
Fort Bend LID No. 17 (a).....	49,253,958	2/28/2020	45.18%	22,252,938
Fort Bend Independent School District.....	1,040,469,946	2/28/2020	2.05%	21,329,634
City of Sugar Land.....	284,864,774	2/28/2020	5.36%	15,268,752
Total Estimated Overlapping Debt.....				\$ 65,116,588
The District's Total Direct Debt (b).....				36,830,000 *
Total Direct and Estimated Overlapping Debt.....				\$ 101,946,588

Direct Debt and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$867,995,179.....	11.75% *
2020 Preliminary Taxable Assessed Valuation of \$928,727,566.....	10.98% *

(a) See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."

(b) The Bonds and the Remaining Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—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 entities overlapping the District and of 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
Fort Bend County (including Drainage District).....	0.460000
Fort Bend LID No. 17 (a).....	0.560000
Fort Bend Independent School District.....	1.270000
City of Sugar Land.....	0.332000
Total Overlapping Tax Rate.....	\$ 2.622000
The District (b).....	0.410000
Total Tax Rate.....	\$ 3.032000

(a) See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."

(b) See "TAX DATA—Debt Service Tax—Maintenance Tax."

Operating Fund

The following statement sets forth in condensed form, the General Operating Fund, as shown in the District's audited financial statements for the fiscal years ending June 30, 2016 through June 30, 2019 and an unaudited summary as of February 29, 2020 prepared by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Unaudited 7/1/2019 to 2/29/2020(a)	Fiscal Year Ended June 30			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 757,066	\$ 911,392	\$ 755,732	\$ 358,833	\$ 255,776
City of Sugar Land Tax Rebate (b)	-	174,770	141,912	123,854	90,857
Other	10,382	27,574	5,415	2,058	2,656
Total Revenues	\$ 767,448	\$ 1,113,736	\$ 903,059	\$ 484,745	\$ 349,289
Expenditures					
Professional Fees	\$ 57,945	\$ 78,071	\$ 91,698	\$ 107,392	\$ 101,986
Purchased or Contracted Services	8,006	12,918	13,238	13,650	12,975
Administrative Expenses	13,651	30,314	30,859	28,788	24,775
Debt Issuance Costs	-	-	-	18,314	4,336
TIRZ Payments	-	174,770	141,912	123,854	90,857
Capital Outlay	-	1,068,003 (c)	42,774	641,961	479,828
Other	-	-	422	-	-
Total Expenditures	\$ 79,602	\$ 1,364,076	\$ 320,903	\$ 933,959	\$ 714,757
NET REVENUES	\$ 687,846	\$ (250,340)	\$ 582,156	\$ (449,214)	\$ (365,468)
Internal Transfers	\$ (896,851) (b)	\$ -	\$ 10,185	\$ -	\$ -
General Operating Fund Balance (Beginning of Year)	\$ 492,468	\$ 742,808	\$ 150,467	\$ 599,681	\$ 965,149
General Operating Fund Balance (End of Year)	\$ 283,463	\$ 492,468	\$ 742,808	\$ 150,467	\$ 599,681

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

(b) Amounts shown above represent only the portion of annually collected City Rebate designated to pay for the District's calculated TIRZ participation payment. Rebates are initially deposited into the District's general operating fund until fully collected, then the amount due to the TIRZ No. 4 for the District's participation is paid to TIRZ No. 4, and the balance is transferred to the water, sewer and drainage debt service fund or the road debt service fund based on an allocation that corresponds with the debt tax rate for Water, Sewer and Drainage Bonds and Road Bonds, respectively.

(c) Represents a one-time developer reimbursement for utilities constructed to serve University Commons.

TAX DATA

Debt Service Tax

The Board 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,” “Tax Roll Information” below, 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 September 10, 2005, 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 appraised 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” above.” At an additional election held on May 12, 2007, voters of the District authorized the Board to levy a road maintenance tax at a rate not to exceed \$0.25 per \$100 appraised valuation, which has not been levied to date.

Historical Tax Rate Distribution

	2015	2016	2017	2018	2019
Debt Service	\$0.4000	\$0.3700	\$0.3200	\$0.3000	\$0.2800 (a)
Maintenance and Operations	0.0350	0.0450	0.0950	0.1086	0.1300
Total	\$0.4350	\$0.4150	\$0.4150	\$0.4086	\$0.4100

(a) For tax year 2019, the total debt service tax rate of \$0.28 per \$100 assessed valuation is comprised of \$0.17 for payment of Water, Sewer, and Drainage Bond debt service and \$0.11 for the payment of Road Bond debt service.

Tax Exemptions

For tax year 2020, the District has granted a \$10,000 exemption to the residential homesteads of persons sixty-five (65) years or older and of certain disabled persons.

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form 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. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data. See “Tax Roll Information” below.

Tax Year	Taxable Assessed Valuation(a)	Tax Rate	Total Tax Levy(b)	Total Collections as of March 31, 2020	
				Amount	Percent
2015	\$ 736,596,698	\$0.4350	\$ 3,204,196	\$ 3,201,395	99.91%
2016	789,166,768	0.4150	3,275,042	3,270,667	99.87%
2017	806,653,840	0.4150	3,347,613	3,336,136	99.66%
2018	852,125,202	0.4086	3,481,784	3,469,497	99.65%
2019	867,995,179	0.4100	3,558,780	3,466,455	97.41%

(a) As certified by the Appraisal District. See “Tax Roll Information” below for assessed value and exemptions granted by the District.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.

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 2015 through 2019 Certified Taxable Assessed Valuation. See "TAXING PROCEDURES." No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data. A breakdown of the 2020 Preliminary Taxable Assessed Valuation is not available.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions(a)	Net Taxable Assessed Valuations
	Land	Improvements	Personal Property			
2015	\$ 186,429,911	\$ 543,998,740	\$ 16,524,320	\$ 746,952,971	\$ (10,356,273)	\$ 736,596,698
2016	187,147,881	596,906,070	17,380,810	801,434,761	(12,267,993)	789,166,768
2017	197,498,637	603,168,008	18,810,600	819,477,245	(12,823,405)	806,653,840
2018	197,583,297	642,990,829	24,538,739	865,112,865	(12,987,663)	852,125,202
2019	198,389,381	651,770,602	30,787,269	880,947,252	(12,952,073)	867,995,179

(a) See "TAXING PROCEDURES—Property Subject to Taxation."

Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property, and such property's taxable appraised value as a percentage of the 2019 Certified Taxable Assessed Valuation of \$867,995,179. This represents ownership as of January 1, 2019. A list related to the 2020 Preliminary Taxable Assessed Valuation is not available.

Taxpayer	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
Telfair Lofts Cedros LLC Etal	\$ 38,535,450	4.44%
Costco Wholesale Corporation	25,879,860	2.98%
Vista Sugarland Common Ltd.	20,326,550	2.34%
American Commercial Management LLC	12,045,022	1.39%
Wescott Med Properties LLC	10,254,600	1.18%
Sugarland Med Properties LP	8,256,920	0.95%
Aquataina Westcott LLC	7,805,478	0.90%
Hazen Sugar Land I LLC & Hazen Sugar Land II	5,892,422	0.68%
Aquataina Sugar Land Office I LP	5,750,000	0.66%
Artman Retail One Partners LLC	5,482,650	0.63%
Total	\$ 140,228,952	16.16%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised 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 \$867,995,179 and the 2020 Preliminary Taxable Assessed Valuation. The calculations contained in the following table are performed without receipt of the City rebate (see "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND") and 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 Assessed 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. While the District anticipates using a portion of the City tax rebate to pay debt service on the Bonds and the Remaining Outstanding Bonds, such revenue is not pledged to the payment of the Bonds or the Remaining Outstanding Bonds and is therefore not included in the calculations. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND."

Average Annual Debt Service Requirement (2021-2034)	\$3,029,875*
\$0.37* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$3,051,003*
\$0.35* Tax Rate on the 2020 Preliminary Taxable Assessed Valuation	\$3,088,019*
Maximum Annual Debt Service Requirement (2021)	\$3,522,300*
\$0.43* Tax Rate on the 2019 Certified Taxable Assessed Valuation	\$3,545,760*
\$0.40* Tax Rate on the 2020 Preliminary Taxable Assessed Valuation	\$3,529,165*

No representation or suggestion is made that the 2020 Preliminary Taxable Assessed Valuation provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts 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 Fort Bend Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the "Appraisal Review Board").

*Preliminary, subject to change.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be

required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to 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 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%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See "TAX DATA."

Freeport Goods Exemption: 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 is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Fort Bend County, the City and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the TIRZ No. 4 or any other reinvestment zone created by the City. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

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

The 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 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.

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.

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 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.

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 June 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)" 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 year. 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 above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collections Limitations and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outbreak (COVID-19)

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. 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 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 rating. 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.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries 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. As previously stated, 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.

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including Fort Bend County, is subject to occasional severe weather events, including tropical storms and hurricanes. 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.

The City operates the water and sewer system in the District. According to reports from the City, the City's water and wastewater system serving the District sustained no material damage and there was no interruption of water and sewer service from the City as a result of Hurricane Harvey. Further, the District did not receive reports of any homes or commercial businesses within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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.

Overlapping Debt and Taxes

All of the land within the District is located within LID 17, and is subject to taxation by LID 17. LID 17's 2019 Certified Taxable Assessed Valuation from the Appraisal District is \$1,920,914,596. The 2019 tax rate of LID 17 is \$0.56 per \$100 of appraised valuation (\$0.25 for debt service and \$0.31 for maintenance and operations). LID 17 currently has \$52,155,000 principal amount of bonds outstanding and is authorized to issue a maximum of \$125,000,000 in principal amount of unlimited tax bonds for drainage purposes without additional voter approval. In addition, LID 17 has approved preparation and submittal of a bond application to the TCEQ for \$12,000,000 principal amount unlimited tax levee improvement bonds and \$3,145,000 principal amount unlimited tax park bonds and expects approval and sale of such bonds in late 2020. LID 17 anticipates the issuance of additional drainage bonds in the future, after issuance of the park bonds in 2020. LID 17 will not have any remaining voter authorization for park bonds. The District cannot represent whether any of the development planned or occurring in LID 17 will be successful or whether the appraised valuation of the land located within LID 17 will justify continued payment of the LID 17 tax, as well as District taxes, by property owners. Increases in LID 17's tax rate could have an adverse impact upon future development and upon development and home sales within LID 17, which includes the District, and the willingness of owners of property located within the District to pay ad valorem taxes levied by LID 17 and the District.

The District intends that the composite of its tax rate and those of LID 17 and the City, will not exceed \$1.50 per \$100 of appraised valuation; however, the District cannot control the tax rates of the City or LID 17. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates of competing projects in the Harris/Fort Bend County region. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected. A composite tax rate of \$1.50 is higher than the tax rate of many municipal utility districts in the Houston metropolitan area, although such a combined rate is within the range set by certain municipal utility districts in the Houston metropolitan area in stages of development comparable with the District.

The current TCEQ rules regarding the feasibility of a bond issue for utility districts in Fort Bend County limit the projected "combined tax rate" attributable to an entity levying a tax for water, wastewater and drainage to \$1.50. In the case of the District, the total "combined tax rate" under current TCEQ rules includes the tax rate of the District, LID 17 and the City. If the total "combined tax rate" specifically attributable to water, sewer, drainage, roads and recreational facilities should ever exceed \$1.50, the District and LID 17 could be prohibited under rules of the TCEQ from selling additional bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes."

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 is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other Bonds, 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. The District's voters have authorized the issuance of \$86,450,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring water, sewer and drainage facilities, \$56,200,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds of the District, \$37,675,000 principal amount of unlimited tax bonds for road and refunding purposes and \$7,600,000 principal amount of unlimited tax bonds for recreational facilities and could authorize additional amounts. After the issuance of the Bonds, \$54,167,275* principal amount of unlimited tax bonds for refunding purposes will remain authorized but unissued. In addition, \$52,600,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities, \$19,390,000 principal amount of unlimited tax bonds for road and refunding purposes, and all of the unlimited tax bonds for recreational facilities will remain authorized but unissued. 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 for water, sewer and drainage and recreation facilities 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 assessed 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.

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).

*Preliminary; subject to change.

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.

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."

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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.

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 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 "A1" 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.

Application has also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the District and at the District's expense. The rating fees of 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.

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 and (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.

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.

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 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 tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND," "CITY OF SUGAR LAND TAX INCREMENT FINANCE ZONE NO. 4," "THE BONDS," "THE DISTRICT—General," "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 or the Developer 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 and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

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 on the Bonds are 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 Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the 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. Bond Counsel will further 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 Resolution or if the foregoing representations 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 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 a 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

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.

Underwriter

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

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants. Each consultant has agreed to the use of information provided by such firms.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled “THE DISTRICT,” “THE ROADS” and “THE SYSTEM” has been provided by LJA Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the historical certified taxable appraised valuations has been provided by the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Fort Bend County, including the District.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District’s assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Tax Tech Inc. and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

Auditor: The District’s audited financial statements for the year ended June 30, 2019, were prepared by McGrath & Co., PLLC. See “APPENDIX A” for a copy of the District’s June 30, 2019, financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Operating Fund” has been provided by Myrtle Cruz, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of 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 official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has 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 “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)”, except for Estimated Overlapping Debt,” “TAX DATA,” and in APPENDIX A (Financial Statements of the District). 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 auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. 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 becomes available.

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

Specified Event Notices

The District will provide timely notices of certain 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 material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District 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; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “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, operational data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from 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.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt 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 Initial Purchasers 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 its previous continuing disclosure agreements made 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.

This OFFICIAL STATEMENT was approved by the Board of Directors of Fort Bend County Municipal Utility District No. 138, as of the date shown on the cover page.

/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 Fort Bend County Municipal Utility District No. 138 and certain supplemental information for the fiscal year ended June 30, 2019.

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 138**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

June 30, 2019

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McGRATH & CO., PLLC

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

Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 138
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 138, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

***Board of Directors
Fort Bend County Municipal Utility District No. 138
Fort Bend County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major of Fort Bend County Municipal Utility District No. 138, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

W. G. Galt & Co., P.C.

Houston, Texas
October 14, 2019

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 138 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at June 30, 2019, was negative \$27,774,864. The District's net position is negative because the District incurs debt to construct water, sewer, drainage and road facilities which it conveys to the City of Sugar Land. A comparative summary of the District's overall financial position, as of June 30, 2019 and 2018, is as follows:

	2019	2018
Current and other assets	\$ 6,252,383	\$ 5,742,299
Capital assets	5,389,799	5,606,425
Total assets	<u>11,642,182</u>	<u>11,348,724</u>
 Total deferred outflows of resources	 <u>1,417,877</u>	 <u>1,461,115</u>
 Current liabilities	 2,779,688	 2,844,039
Long-term liabilities	38,055,235	40,220,531
Total liabilities	<u>40,834,923</u>	<u>43,064,570</u>
 Net position		
Net investment in capital assets	(1,301,793)	(2,376,061)
Restricted	4,120,933	4,347,585
Unrestricted	(30,594,004)	(32,226,255)
Total net position	<u>\$ (27,774,864)</u>	<u>\$ (30,254,731)</u>

Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019

The total net position of the District increased during the current fiscal year by \$2,479,867. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2019	2018
Revenues		
Property taxes, penalties and interest	\$ 3,500,340	\$ 3,351,807
City of Sugar Land tax rebates	1,077,062	1,166,763
Other	50,284	19,604
Total revenues	<u>4,627,686</u>	<u>4,538,174</u>
Expenses		
Operating and administrative	182,681	221,125
Debt interest and fees	1,439,371	1,438,425
Developer interest		422
Debt issuance costs	123,890	130,363
TIRZ payments	174,770	141,912
Amortization	216,626	216,626
Total expenses	<u>2,137,338</u>	<u>2,148,873</u>
Change in net position before other items	2,490,348	2,389,301
Other items		
Transfers to other governments		(868,164)
Change in estimate of due to developer	<u>(10,481)</u>	
Change in net position	2,479,867	1,521,137
Net position, beginning of year	<u>(30,254,731)</u>	<u>(31,775,868)</u>
Net position, end of year	<u>\$ (27,774,864)</u>	<u>\$ (30,254,731)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of June 30, 2019, were \$4,924,540, which consists of \$492,468 in the General Fund and \$4,432,072 in the Debt Service Fund.

General Fund

A comparative summary of the General Fund's financial position as of June 30, 2019 and 2018 is as follows:

	2019	2018
Total assets	<u>\$ 1,591,381</u>	<u>\$ 762,155</u>
Total liabilities	\$ 1,073,817	\$ 6,575
Total deferred inflows	25,096	12,772
Total fund balance	<u>492,468</u>	<u>742,808</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,591,381</u>	<u>\$ 762,155</u>

***Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019***

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

	2019	2018
Total revenues	\$ 1,113,736	\$ 903,059
Total expenditures	(1,364,076)	(320,903)
Revenues over/(under) expenditures	(250,340)	582,156
Other changes in fund balance		10,185
Net change in fund balance	\$ (250,340)	\$ 592,341

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and City of Sugar Land rebates. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and assessed values increased from prior year.
- City of Sugar Land tax rebates in the General Fund are based on the portion of the TIRZ payment that the District owes the City. See Note 11 for additional information.

During the current year, the District received approval from the Texas Commission on Environmental Quality to use \$1,062,522 in surplus general operating funds from maintenance tax revenue to reimburse its developers for the cost of certain assets. See Note 13 for additional information.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of June 30, 2019 and 2018 is as follows:

	2019	2018
Total assets	\$ 4,534,807	\$ 4,845,049
Total liabilities	\$ 634	\$ 30,605
Total deferred inflows	102,101	66,440
Total fund balance	4,432,072	4,748,004
Total liabilities, deferred inflows and fund balance	\$ 4,534,807	\$ 4,845,049

***Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019***

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

	2019	2018
Total revenues	\$ 3,465,965	\$ 3,589,787
Total expenditures	<u>(3,937,752)</u>	<u>(3,956,596)</u>
Revenues under expenditures	(471,787)	(366,809)
Other changes in fund balance	155,855	135,392
Net change in fund balance	<u>\$ (315,932)</u>	<u>\$ (231,417)</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and City of Sugar Land tax rebates. The difference between these financial resources and debt service requirements resulted in a decrease in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

During the current year, the District issued \$2,685,000 in refunding bonds to refund \$2,540,000 of outstanding Series 2011 road bonds and save \$191,206 in future debt service payments. In the prior year, the District issued \$2,885,000 in refunding bonds to refund \$2,850,000 of outstanding Series 2009A bonds and save \$196,834 in future debt service payments.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$1,018,090 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

***Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019***

Capital Assets

Capital assets held by the District at June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Capital assets being amortized		
Master District connection fees	\$ 1,087,085	\$ 1,087,085
Impact fees	6,476,798	6,476,798
	<u>7,563,883</u>	<u>7,563,883</u>
Less accumulated amortization		
Master District connection fees	(313,619)	(283,223)
Impact fees	(1,860,465)	(1,674,235)
	<u>(2,174,084)</u>	<u>(1,957,458)</u>
Capital assets, net	<u>\$ 5,389,799</u>	<u>\$ 5,606,425</u>

The District and the City of Sugar Land (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of June 30, 2019, the District owes \$1,068,003 to its developer for completed projects. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. The District reimbursed its developer from surplus operating funds subsequent to year end. See Note 13 for additional information.

At June 30, 2019 and 2018, the District had total bonded debt outstanding as shown below:

Series	2019	2018
2009	\$ -	\$ 280,000
2009A	410,000	615,000
2011 Road	110,000	2,755,000
2012	4,560,000	4,845,000
2013 Refunding	5,875,000	6,205,000
2014 Road	11,920,000	12,665,000
2015	2,230,000	2,370,000
2016 Refunding	8,285,000	8,520,000
2017 Refunding	2,870,000	2,885,000
2019 Refunding	2,685,000	
	<u>\$ 38,945,000</u>	<u>\$ 41,140,000</u>

***Fort Bend County Municipal Utility District No. 138
Management's Discussion and Analysis
June 30, 2019***

During the year, the District issued \$2,685,000 in unlimited tax refunding bonds. At June 30, 2019, the District had \$52,600,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$7,600,000 for parks and recreational facilities; \$19,425,000 for road improvements and \$54,412,275 for refunding purposes.

Next Year's Budget

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

	<u>2019 Actual</u>	<u>2020 Budget</u>
Total revenues	\$ 1,113,736	\$ 920,000
Total expenditures	<u>(1,364,076)</u>	<u>(136,000)</u>
Revenues over/(under) expenditures	(250,340)	784,000
Beginning fund balance	<u>742,808</u>	<u>492,468</u>
Ending fund balance	<u>\$ 492,468</u>	<u>\$ 1,276,468</u>

Property Taxes

The District's property tax base increased approximately \$14,278,000 for the 2019 tax year from \$852,130,202 to \$866,407,729. This increase was primarily due to increased property values. For the 2019 tax year, the District has levied a maintenance tax rate of \$0.13 per \$100 of assessed value; a water, sewer, and drainage debt service tax rate of \$0.17 per \$100 of assessed value; and a road debt service tax rate of \$0.11 per \$100 of assessed value, for a total combined tax rate of \$0.41 per \$100. Tax rates for the 2018 tax year were \$0.1086 per \$100 for maintenance and operations; \$0.19 per \$100 for water, sewer, and drainage debt service; and \$0.11 per \$100 for road debt service, for a combined total of \$0.4086 per \$100 of assessed value.

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Basic Financial Statements

Fort Bend County Municipal Utility District No. 138
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$1,167,968	\$2,796,235	\$3,964,203	\$ -	\$ 3,964,203
Investments	1,293,713	730,049	2,023,762		2,023,762
Taxes receivable	25,096	102,101	127,197		127,197
Prepaid items	3,175		3,175		3,175
Internal balances	(898,571)	898,571			
Accrued interest receivable		7,851	7,851		7,851
Prepaid bond insurance, net				126,195	126,195
Capital assets, net				5,389,799	5,389,799
Total Assets	<u>\$1,591,381</u>	<u>\$4,534,807</u>	<u>\$6,126,188</u>	<u>5,515,994</u>	<u>11,642,182</u>
Deferred Outflows of Resources					
Deferred difference on refunding				<u>1,417,877</u>	<u>1,417,877</u>
Liabilities					
Accounts payable	\$ 5,814	\$ -	\$ 5,814		5,814
Due to others		25	25		25
Accrued interest payable		609	609	413,240	413,849
Due to developers	1,068,003		1,068,003		1,068,003
Long-term debt					
Due within one year				2,360,000	2,360,000
Due after one year				36,987,232	36,987,232
Total Liabilities	<u>1,073,817</u>	<u>634</u>	<u>1,074,451</u>	<u>39,760,472</u>	<u>40,834,923</u>
Deferred Inflows of Resources					
Deferred property taxes	<u>25,096</u>	<u>102,101</u>	<u>127,197</u>	<u>(127,197)</u>	
Fund Balances/Net Position					
Fund Balances					
Nonspendable	3,175		3,175	(3,175)	
Restricted		4,432,072	4,432,072	(4,432,072)	
Unassigned	489,293		489,293	(489,293)	
Total Fund Balances	<u>492,468</u>	<u>4,432,072</u>	<u>4,924,540</u>	<u>(4,924,540)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,591,381</u>	<u>\$4,534,807</u>	<u>\$6,126,188</u>		
Net Position					
Net investment in capital assets				(1,301,793)	(1,301,793)
Restricted for debt service				4,120,933	4,120,933
Unrestricted				<u>(30,594,004)</u>	<u>(30,594,004)</u>
Total Net Position				<u>\$ (27,774,864)</u>	<u>\$ (27,774,864)</u>
See notes to basic financial statements.					

Fort Bend County Municipal Utility District No. 138

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 911,392	\$2,521,776	\$3,433,168	\$ 39,294	\$ 3,472,462
Penalties and interest		19,187	19,187	8,691	27,878
City of Sugar Land tax rebates	174,770	902,292	1,077,062		1,077,062
Investment earnings	27,574	22,710	50,284		50,284
Total Revenues	1,113,736	3,465,965	4,579,701	47,985	4,627,686
Expenditures/Expenses					
Operating and administrative					
Professional fees	78,071		78,071		78,071
Contracted services	12,918	52,434	65,352		65,352
Administrative	30,314	3,944	34,258		34,258
Other		5,000	5,000		5,000
Capital outlay	1,068,003		1,068,003	(1,068,003)	
Debt service					
Principal		2,340,000	2,340,000	(2,340,000)	
Interest and fees		1,412,484	1,412,484	26,887	1,439,371
Debt issuance costs		123,890	123,890		123,890
TIRZ payments	174,770		174,770		174,770
Amortization				216,626	216,626
Total Expenditures/Expenses	1,364,076	3,937,752	5,301,828	(3,164,490)	2,137,338
Revenues Over/(Under)					
Expenditures/Expenses	(250,340)	(471,787)	(722,127)	3,212,475	2,490,348
Other Financing Sources/(Uses)					
Proceeds from sale of refunding bonds		2,685,000	2,685,000	(2,685,000)	
Payment to refunded bond escrow agent		(2,529,145)	(2,529,145)	2,529,145	
Other Items					
Change in estimate of due to developer				(10,481)	(10,481)
Net Change in Fund Balances	(250,340)	(315,932)	(566,272)	566,272	
Change in Net Position				2,479,867	2,479,867
Fund Balances/Net Position					
Beginning of the year	742,808	4,748,004	5,490,812	(35,745,543)	(30,254,731)
End of the year	\$ 492,468	\$4,432,072	\$4,924,540	\$ (32,699,404)	\$ (27,774,864)

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 138 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated April 1, 2005, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on June 20, 2005 and the first bonds were issued on June 26, 2007.

The District’s primary activities include the construction of water, sewer, drainage and road facilities. As further discussed in Note 10, the District transfers these facilities to the City of Sugar Land for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government, a component unit of a primary government or a related organization. A primary government has a separately elected governing body; is legally separate; and is fiscally independent of other state and local governments. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

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

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

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and City of Sugar Land tax rebates. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary sources of revenue for debt service are property taxes and City of Sugar Land tax rebates. Expenditures include costs incurred in assessing and collecting these taxes.

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Prepaid Bond Insurance

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At June 30, 2019, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets, which primarily consist of impact fees and connection fees, are amortized using the straight-line method as follows:

Assets	Useful Life
Impact fees	Remaining life of contract
Connection fees	Remaining life of contract

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

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

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

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

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items.

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

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District 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 an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of Sugar Land and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balances, governmental funds	\$	4,924,540
Prepaid bond insurance is recorded as an asset and amortized to interest expense in the government wide statements.		126,195
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$	7,563,883
Less accumulated amortization		<u>(2,174,084)</u>
Change due to capital assets		5,389,799
The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.		1,417,877
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net		(39,347,232)
Interest payable on bonds		<u>(413,240)</u>
Change due to long-term debt		(39,760,472)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
Property taxes receivable		103,903
Penalty and interest receivable		<u>23,294</u>
Change due to property taxes		127,197
Total net position - governmental activities	\$	<u><u>(27,774,864)</u></u>

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

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

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

Net change in fund balances - total governmental funds	\$ (566,272)
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Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest.

	47,985
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Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, impact fees paid to the Master District and connection charges paid to the City of Sugar Land are capitalized and charged to expense over the remaining life of the contract.

Capital outlays	\$	1,068,003	
Amortization expense		(216,626)	
			851,377

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

Issuance of long term debt	(2,685,000)		
Payment to refunded bond escrow agent		2,529,145	
Principal payments		2,340,000	
Interest expense accrual		(26,887)	
			2,157,258

Revisions in the estimate of due to developer do not provide financial resources in the funds; but result in an adjustment to net position in *Statement of Activities*.

	(10,481)
--	----------

Change in net position of governmental activities	\$ 2,479,867
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Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

As of June 30, 2019, the District's investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
TexSTAR	General	\$ 1,293,713	64%	AAAm	15 days
Certificates of deposit	Debt Service	730,049	36%	N/A	N/A
Total		<u>\$ 2,023,762</u>	<u>100%</u>		

The District's investments in certificates of deposit are reported at cost.

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 3 – Deposits and Investments (continued)

TexSTAR

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The District's investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

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

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at June 30, 2019, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 808	Maintenance tax collections not remitted as of year end
Debt Service Fund	General Fund	896,852	City of Sugar Land tax rebates not remitted to Debt Service Fund as of year end
Debt Service Fund	General Fund	2,527	Excess deposit in General Fund from the Series 2019 refunding bonds to cover issuance costs

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

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended June 30, 2019, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets being amortized			
Impact fees	\$ 6,476,798	\$ -	\$ 6,476,798
Master District connection fees	1,087,085		1,087,085
	<u>7,563,883</u>		<u>7,563,883</u>
Less accumulated amortization			
Impact fees	(1,674,235)	(186,230)	(1,860,465)
Master District connection fees	(283,223)	(30,396)	(313,619)
	<u>(1,957,458)</u>	<u>(216,626)</u>	<u>(2,174,084)</u>
Capital assets, net	<u>\$ 5,606,425</u>	<u>\$ (216,626)</u>	<u>\$ 5,389,799</u>

Amortization expense for the current year was \$216,626.

Note 6 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

Changes in amounts due to developer during the year is as follows:

Due to developer, beginning of year	\$ 1,057,522
Change in estimate of amount due to developer	<u>10,481</u>
Due to developer, end of year	<u>\$ 1,068,003</u>

The amount owed to the District's developer at June 30, 2019 was reimbursed subsequent to year end from surplus general operating funds from maintenance tax revenue. See Note 13 for additional information.

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 38,945,000
Unamortized discounts	(375,599)
Unamortized premium	777,831
	<u>\$ 39,347,232</u>
Due within one year	<u>\$ 2,360,000</u>

The District's bonds payable at June 30, 2019, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009A	\$ 410,000	\$ 5,085,000	3.65%-5.50%	September 1, 2010-2034	September 1, March 1	September 1, 2018
2011 Road	110,000	3,205,000	3.625%-5.625%	September 1, 2013-2034	September 1, March 1	September 1, 2019
2012	4,560,000	6,285,000	2.50%-3.25%	September 1, 2013-2034	September 1, March 1	September 1, 2020
2013 Refunding	5,875,000	7,175,000	2.00%-3.50%	September 1, 2013-2032	September 1, March 1	September 1, 2020
2014 Road	11,920,000	14,900,000	2.00%-4.00%	September 1, 2015-2034	September 1, March 1	September 1, 2022
2015	2,230,000	2,645,000	2.00%-3.40%	September 1, 2016-2034	September 1, March 1	September 1, 2023
2016 Refunding	8,285,000	8,765,000	2.00%-4.00%	September 1, 2016-2033	September 1, March 1	September 1, 2022
2017 Refunding	2,870,000	2,885,000	2.00%-4.00%	September 1, 2018-2034	September 1, March 1	September 1, 2024
2019 Refunding	2,685,000	2,685,000	2.00%-3.00%	September 1, 2020-2034	September 1, March 1	September 1, 2024
	<u>\$ 38,945,000</u>					

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

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 7 – Long-Term Debt (continued)

At June 30, 2019, the District had authorized but unissued bonds in the amount of \$52,600,000 for water, sewer and drainage facilities; \$7,600,000 for park and recreational facilities; \$19,425,000 for road improvements, and \$54,412,275 for refunding purposes.

On June 4, 2019 the District issued its Series 2019 \$2,685,000 Unlimited Tax Road Refunding Bonds at a net effective interest rate of 2.832670% to refund \$2,540,000 of outstanding Series 2011 road bonds. The District refunded the bonds to reduce total debt service payments over future years by approximately \$191,206 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$150,777. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements. As of June 30, 2019 the outstanding principal of defeased bonds is \$2,540,000.

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

Bonds payable, beginning of year	\$	41,140,000
Bonds issued		2,685,000
Bonds retired		(2,340,000)
Bonds refunded		(2,540,000)
Bonds payable, end of year	\$	<u>38,945,000</u>

As of June 30, 2019, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2020	\$ 2,360,000	\$ 1,236,479	\$ 3,596,479
2021	2,390,000	1,188,139	3,578,139
2022	2,405,000	1,119,495	3,524,495
2023	2,440,000	1,049,807	3,489,807
2024	2,455,000	977,345	3,432,345
2025	2,480,000	899,346	3,379,346
2026	2,520,000	816,957	3,336,957
2027	2,545,000	732,276	3,277,276
2028	2,575,000	645,500	3,220,500
2029	2,610,000	556,301	3,166,301
2030	2,640,000	465,392	3,105,392
2031	2,675,000	372,214	3,047,214
2032	2,705,000	275,003	2,980,003
2033	2,750,000	175,291	2,925,291
2034	1,815,000	91,425	1,906,425
2035	1,580,000	28,900	1,608,900
	<u>\$ 38,945,000</u>	<u>\$ 10,629,866</u>	<u>\$ 49,574,866</u>

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 8 – Property Taxes

On September 10, 2005, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. In addition, on May 12, 2007, the voters of the District authorized \$0.25 per \$100 of assessed value for road maintenance. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2019 fiscal year was financed through the 2018 tax levy, pursuant to which the District levied property taxes of \$0.4086 per \$100 of assessed value, of which \$0.1086 was allocated to maintenance and operations; \$0.19 was allocated to water, sewer and drainage debt service, and \$0.11 was allocated to road debt service. The resulting tax levy was \$3,481,804 on the adjusted taxable value of \$852,130,202.

Property taxes receivable, at June 30, 2019, consisted of the following:

Current year taxes receivable	\$ 76,339
Prior years taxes receivable	<u>27,564</u>
	103,903
Penalty and interest receivable	<u>23,294</u>
Total property taxes receivable	<u><u>\$ 127,197</u></u>

Note 9 – Master District

On October 10, 2005, the District entered into a contract (the "Contract") with Fort Bend County Municipal Utility District No. 136 (the "Master District") to construct certain regional water, sewer and drainage improvements within the Telfair master planned community. The District is obligated to pay a pro-rata share of the costs of these regional improvements as a capital recovery charge (the "Master District Connection Charge"). The Master District Connection Charge is set by the Master District and may be amended without the District's consent at any time. Due to the adoption of the Agreement (described below), the Master District no longer collects these connection charges.

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 9 – Master District (continued)

On August 8, 2016, the District entered into a Cost Sharing Agreement for Construction of Facilities (the “Agreement”) with the Master District, Fort Bend County Municipal Utility District No. 137 and Fort Bend County Municipal Utility District No. 139 (the “Participating Districts”). Pursuant to the Agreement, costs associated with the construction of certain shared facilities to serve the Telfair master planned community were allocated between the Participating Districts on a pro-rata basis based on capacity provided by the shared facilities. The reallocation was based on each Participating District’s capacity as of June 30, 2016 and all of the District’s share has been paid.

Note 10 – Utility Agreement with the City of Sugar Land

Residents of the District receive water and wastewater treatment service from the City of Sugar Land (the “City”) pursuant to a Utility Agreement between the District and the City. As a condition of such service, the Utility Agreement obligates the District to acquire, construct and extend water, sanitary sewer and drainage facilities (the “System”) to serve land in the District and, when completed in accordance with approved plans and specifications, to convey title of the System to the City. The City then operates and maintains the System and is responsible for establishing water and sewer rates and billing and collecting for such services. The Utility Agreement provides that the District retains a security interest in the System to secure the City’s performance under the Utility Agreement until the District’s bonds have been fully paid, at which time the District will execute a release of such interest, and the City will own the System unencumbered.

The District has agreed to extend the System to serve future users as necessary so that ultimately all land owners in the District will be able to receive services from the System. However, the District’s obligation to extend the System is conditioned upon the Developer’s continuing with its development program, the City’s performing under the provisions of the Utility Agreement, the satisfaction of certain determinations of economic feasibility, governmental agency approvals and the ability to sell additional bonds. The term of the Utility Agreement is forty years.

The Utility Agreement further requires the District to pay the City a one-time capital recovery charge (the “City Connection Charge”) to purchase water supply and wastewater treatment capacity in the City’s existing system. The City Connection Charge is set by the City and may be amended without the District’s consent at any time. The connection fee will be paid at the time the plant is recorded and prior to any tap into the System to service the area. The District has purchased sufficient capacity to serve all of the single family residential lots developed in the District.

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District fifty percent (50%) of such City taxes collected upon taxable property within the District beginning with taxes collected for the 2006 tax year (the District’s initial year of taxation) and continuing each year thereafter until the District’s unlimited tax debt has been paid in full. The amount of rebate payment will vary with changes in the City’s tax rate and the District’s appraised valuation. Consequently, the amounts subject to rebate by the City will vary from year to year. For the year ended June 30, 2019, the District received \$1,077,062 in rebates from the City of Sugar Land.

Fort Bend County Municipal Utility District No. 138
Notes to Basic Financial Statements
June 30, 2019

Note 11 – Tax Increment Reinvestment Zone

A portion of the District lies within the boundaries of the City of Sugar Land Tax Increment Reinvestment Zone No. 4 (the “TIRZ”), which was established by the City on December 15, 2009. Under state law, a city may establish a TIRZ to promote private economic development of an area by investing in public infrastructure in that area. The base taxable assessed value of land within the TIRZ is established when the TIRZ is created. Any incremental growth in the taxable assessed value over the base is considered a “tax increment”. Taxing jurisdictions within the Zone have the option of contributing all or portions of tax collections attributed to the tax increment to the City for use in financing the public infrastructure improvements. The purpose of the TIRZ is to fund certain infrastructure costs for entertainment, office and higher density retail development proposed within its boundaries.

Participation by the District in the TIRZ is limited to contributing the amount of the rebate discussed in Note 10 that would be paid to the District by the City in connection with the commercial land within the District that is also within the TIRZ for the life of the TIRZ or the final maturity of the District’s debt, whichever is less.

Incremental value for the 2018 tax year is \$121,426,770. For the fiscal year ended June 30, 2019, the District made payments in the amounts of \$174,770 to the City of Sugar Land.

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 13 – Subsequent Event

On July 8, 2019, the District reimbursed its developer \$1,068,003 from surplus general operating funds from maintenance tax revenues for costs associated with the construction of water, wastewater, and drainage facilities for University Commons and connection fees paid to the City of Sugar Land and the Master District.

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Required Supplementary Information

Fort Bend County Municipal Utility District No. 138

Required Supplementary Information - Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 809,379	\$ 900,000	\$ 911,392	\$ 11,392
City of Sugar Land tax rebates			174,770	174,770
Investment earnings	3,000	3,000	27,574	24,574
Total Revenues	812,379	903,000	1,113,736	210,736
Expenditures				
Operating and administrative				
Professional fees	88,250	88,250	78,071	10,179
Contracted services	14,000	14,000	12,918	1,082
Administrative	33,000	33,000	30,314	2,686
Capital outlay			1,068,003	(1,068,003)
Intergovernmental				
TIRZ payments			174,770	(174,770)
Total Expenditures	135,250	135,250	1,364,076	(1,228,826)
Revenues Over/(Under) Expenditures	677,129	767,750	(250,340)	(1,018,090)
Fund Balance				
Beginning of the year	742,808	742,808	742,808	
End of the year	\$ 1,419,937	\$ 1,510,558	\$ 492,468	\$ (1,018,090)

Fort Bend County Municipal Utility District No. 138
Notes to Required Supplementary Information
June 30, 2019

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues.

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 138

TSI-1. Services and Rates

June 30, 2019

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

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

2. Retail Service Providers N/A

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

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:					to
Wastewater:					to
Surcharge:					to

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

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"			x 1.0	
1"			x 2.5	
1.5"			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				
Total Wastewater			x 1.0	

See accompanying auditor's report.

Fort Bend County Municipal Utility District No. 138
TSI-1. Services and Rates
June 30, 2019

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

Gallons pumped into system:	<u>N/A</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>N/A</u>	<u>N/A</u>

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

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

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

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

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

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

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

County(ies) in which the District is located: Fort Bend County

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

City(ies) in which the District is located: City of Sugar Land

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

Entirely ☐ Partly ☐ Not at all ☒

ETJs in which the District is located: _____

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

If Yes, by whom? _____

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-2 General Fund Expenditures
For the Year Ended June 30, 2019

Professional fees		
Legal	\$	62,782
Audit		11,000
Engineering		4,289
		<u>78,071</u>
Contracted services		
Bookkeeping		<u>12,918</u>
Administrative		
Directors fees		12,300
Printing and office supplies		2,369
Insurance		3,291
Other		12,354
		<u>30,314</u>
Capital outlay		<u>1,068,003</u>
Intergovernmental		
TIRZ payments		<u>174,770</u>
Total expenditures	\$	<u><u>1,364,076</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-3. Investments
June 30, 2019

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Interest Receivable</u>
General				
TexSTAR	Variable	N/A	<u>\$ 1,293,713</u>	<u>\$ -</u>
Debt Service				
Certificate of deposit	2.40%	08/13/19	244,943	2,223
Certificate of deposit	2.52%	07/12/19	242,087	2,841
Certificate of deposit	2.42%	07/09/19	243,019	2,787
			<u>730,049</u>	<u>7,851</u>
Total - All Funds			<u><u>\$ 2,023,762</u></u>	<u><u>\$ 7,851</u></u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-4. Taxes Levied and Receivable
June 30, 2019

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 12,772	\$ 33,167	\$ 18,670	\$ 64,609
Adjustments	(1,747)	(4,776)	(2,819)	(9,342)
Adjusted Receivable	11,025	28,391	15,851	55,267
2018 Original Tax Levy	910,490	1,592,938	922,227	3,425,656
Adjustments	14,923	26,109	15,116	56,148
Adjusted Tax Levy	925,413	1,619,047	937,343	3,481,804
Total to be accounted for	936,438	1,647,438	953,194	3,537,071
Tax collections:				
Current year	905,124	1,583,550	916,792	3,405,465
Prior years	6,218	13,436	8,047	27,703
Total Collections	911,342	1,596,986	924,839	3,433,168
Taxes Receivable, End of Year	\$ 25,096	\$ 50,452	\$ 28,355	\$ 103,903
Taxes Receivable, By Years				
2018	\$ 20,290	\$ 35,498	\$ 20,551	\$ 76,339
2017	3,225	6,790	4,074	14,089
2016	474	2,477	1,423	4,374
2015 and prior	1,107	5,687	2,307	9,101
Total Taxes Receivable	\$ 25,096	\$ 50,452	\$ 28,355	\$ 103,903
	2018	2017	2016	2015
Property Valuations:				
Land	\$ 197,583,297	\$ 197,498,637	\$ 187,147,881	\$ 186,429,911
Improvements	642,990,829	603,168,008	596,906,070	543,998,740
Personal Property	24,538,739	18,810,600	17,380,810	16,524,320
Exemptions	(12,982,663)	(12,823,405)	(12,267,993)	(10,356,273)
Total Property Valuations	\$ 852,130,202	\$ 806,653,840	\$ 789,166,768	\$ 736,596,698
Tax Rates per \$100 Valuation:				
*Maintenance tax rates (1)	\$ 0.1086	\$ 0.095	\$ 0.045	\$ 0.035
Debt service tax rates	0.1900	0.200	0.235	0.210
**Road debt service tax rates	0.1100	0.120	0.135	0.190
Total Tax Rates per \$100 Valuation	\$ 0.4086	\$ 0.415	\$ 0.4150	\$ 0.435
Adjusted Tax Levy:	\$ 3,481,804	\$ 3,347,613	\$ 3,275,042	\$ 3,204,196
Percentage of Taxes Collected to Taxes Levied ***	97.81%	99.58%	99.87%	99.91%

* Maximum Operations Maintenance Tax Rate Approved by Voters: \$1.50 on September 10, 2005

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on May 12, 2007

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

(1) The District has only levied a maintenance tax for operations purposes and not for road maintenance.
See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2009A--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 205,000	\$ 11,531	\$ 216,531
2021	205,000	3,895	208,895
	<u>\$ 410,000</u>	<u>\$ 15,426</u>	<u>\$ 425,426</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2011 Road--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
<u>2020</u>	<u>\$ 110,000</u>	<u>\$ 3,094</u>	<u>\$ 113,094</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2012--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 285,000	\$ 131,813	\$ 416,813
2021	285,000	123,262	408,262
2022	285,000	115,425	400,425
2023	285,000	108,300	393,300
2024	285,000	100,462	385,462
2025	285,000	91,913	376,913
2026	285,000	83,362	368,362
2027	285,000	74,813	359,813
2028	285,000	66,262	351,262
2029	285,000	57,713	342,713
2030	285,000	49,163	334,163
2031	285,000	40,613	325,613
2032	285,000	31,884	316,884
2033	285,000	22,978	307,978
2034	285,000	13,894	298,894
2035	285,000	4,631	289,631
	<u>\$ 4,560,000</u>	<u>\$ 1,116,488</u>	<u>\$ 5,676,488</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2013 Refunding--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 340,000	\$ 186,481	\$ 526,481
2021	345,000	179,631	524,631
2022	355,000	169,969	524,969
2023	370,000	157,281	527,281
2024	380,000	144,156	524,156
2025	400,000	130,506	530,506
2026	415,000	116,244	531,244
2027	425,000	101,544	526,544
2028	440,000	86,406	526,406
2029	450,000	70,832	520,832
2030	465,000	55,691	520,691
2031	485,000	40,544	525,544
2032	495,000	24,619	519,619
2033	510,000	8,288	518,288
	<u>\$ 5,875,000</u>	<u>\$ 1,472,192</u>	<u>\$ 7,347,192</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2014 Road--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 745,000	\$ 392,988	\$ 1,137,988
2021	745,000	370,638	1,115,638
2022	745,000	348,288	1,093,288
2023	745,000	325,938	1,070,938
2024	745,000	303,588	1,048,588
2025	745,000	281,238	1,026,238
2026	745,000	258,888	1,003,888
2027	745,000	235,606	980,606
2028	745,000	211,394	956,394
2029	745,000	186,250	931,250
2030	745,000	160,175	905,175
2031	745,000	133,169	878,169
2032	745,000	104,300	849,300
2033	745,000	74,500	819,500
2034	745,000	44,700	789,700
2035	745,000	14,900	759,900
	<u>\$ 11,920,000</u>	<u>\$ 3,446,556</u>	<u>\$ 15,366,556</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2015--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 140,000	\$ 59,875	\$ 199,875
2021	140,000	57,075	197,075
2022	140,000	54,275	194,275
2023	140,000	51,300	191,300
2024	140,000	48,150	188,150
2025	140,000	44,650	184,650
2026	140,000	40,800	180,800
2027	140,000	36,950	176,950
2028	140,000	32,925	172,925
2029	140,000	28,725	168,725
2030	140,000	24,438	164,438
2031	140,000	20,063	160,063
2032	140,000	15,600	155,600
2033	140,000	11,050	151,050
2034	135,000	6,581	141,581
2035	135,000	2,194	137,194
	<u>\$ 2,230,000</u>	<u>\$ 534,651</u>	<u>\$ 2,764,651</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2016 Refunding--by Years
June 30, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2020	\$ 520,000	\$ 294,600	\$ 814,600
2021	520,000	281,600	801,600
2022	525,000	265,925	790,925
2023	535,000	250,025	785,025
2024	540,000	233,900	773,900
2025	545,000	214,900	759,900
2026	560,000	192,800	752,800
2027	575,000	170,100	745,100
2028	585,000	146,900	731,900
2029	600,000	123,200	723,200
2030	610,000	99,000	709,000
2031	625,000	74,300	699,300
2032	645,000	48,900	693,900
2033	660,000	22,800	682,800
2034	240,000	4,800	244,800
	<u>\$ 8,285,000</u>	<u>\$ 2,423,750</u>	<u>\$ 10,708,750</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2017 Refunding--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 15,000	\$ 101,300	\$ 116,300
2021	15,000	101,000	116,000
2022	215,000	98,700	313,700
2023	215,000	94,400	309,400
2024	210,000	89,100	299,100
2025	205,000	82,875	287,875
2026	205,000	75,700	280,700
2027	205,000	67,500	272,500
2028	205,000	59,300	264,300
2029	205,000	51,100	256,100
2030	205,000	42,900	247,900
2031	200,000	34,800	234,800
2032	195,000	26,900	221,900
2033	195,000	19,100	214,100
2034	190,000	11,400	201,400
2035	190,000	3,800	193,800
	<u>\$ 2,870,000</u>	<u>\$ 959,875</u>	<u>\$ 3,829,875</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
Series 2019 Road Refunding--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ -	\$ 54,797	\$ 54,797
2021	135,000	71,038	206,038
2022	140,000	66,913	206,913
2023	150,000	62,563	212,563
2024	155,000	57,989	212,989
2025	160,000	53,264	213,264
2026	170,000	49,163	219,163
2027	170,000	45,763	215,763
2028	175,000	42,313	217,313
2029	185,000	38,481	223,481
2030	190,000	34,025	224,025
2031	195,000	28,725	223,725
2032	200,000	22,800	222,800
2033	215,000	16,575	231,575
2034	220,000	10,050	230,050
2035	225,000	3,375	228,375
	<u>\$ 2,685,000</u>	<u>\$ 657,834</u>	<u>\$ 3,342,834</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 138
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
June 30, 2019

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 2,360,000	\$ 1,236,479	\$ 3,596,479
2021	2,390,000	1,188,139	3,578,139
2022	2,405,000	1,119,495	3,524,495
2023	2,440,000	1,049,807	3,489,807
2024	2,455,000	977,345	3,432,345
2025	2,480,000	899,346	3,379,346
2026	2,520,000	816,957	3,336,957
2027	2,545,000	732,276	3,277,276
2028	2,575,000	645,500	3,220,500
2029	2,610,000	556,301	3,166,301
2030	2,640,000	465,392	3,105,392
2031	2,675,000	372,214	3,047,214
2032	2,705,000	275,003	2,980,003
2033	2,750,000	175,291	2,925,291
2034	1,815,000	91,425	1,906,425
2035	1,580,000	28,900	1,608,900
	<u>\$ 38,945,000</u>	<u>\$ 10,629,866</u>	<u>\$ 49,574,866</u>

See accompanying auditors' report.

	Bond Issue			
	Series 2009	Series 2009A	Series 2011 Road	Series 2012
Interest rate	4.0% - 6.0%	3.65% - 5.50%	3.625% - 5.625%	2.50% - 3.40%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/10 - 9/1/33	9/1/10 - 9/1/34	9/1/13 - 9/1/34	9/1/13 - 9/1/34
Beginning bonds outstanding	\$ 280,000	\$ 615,000	\$ 2,755,000	\$ 4,845,000
Bonds issued				
Bonds retired	(280,000)	(205,000)	(105,000)	(285,000)
Bond refunded			(2,540,000)	
Ending bonds outstanding	<u>\$ -</u>	<u>\$ 410,000</u>	<u>\$ 110,000</u>	<u>\$ 4,560,000</u>
Interest paid during fiscal year	<u>\$ 7,490</u>	<u>\$ 20,910</u>	<u>\$ 166,454</u>	<u>\$ 140,362</u>
Paying agent's name and city				
Series 2009 and 2009A	Wells Fargo Bank N.A., Houston, Texas			
Series 2011 and 2013	Wells Fargo Bank, N.A., Dallas, Texas			
All other series	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 86,450,000	\$ 7,600,000	\$ 37,675,000	\$ 56,200,000
Amount Issued	(33,850,000)		(18,250,000)	(1,787,725)
Remaining To Be Issued	<u>\$ 52,600,000</u>	<u>\$ 7,600,000</u>	<u>\$ 19,425,000</u>	<u>\$ 54,412,275</u>

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

Debt Service Fund cash and investments balances as of June 30, 2019: \$ 3,526,284

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 3,098,429

See accompanying auditors' report.

	Bond Issue			
	Series 2013 Refunding	Series 2014 Road	Series 2015	Series 2016 Refunding
Interest rate	2.0% - 3.50%	2.0% - 4.0%	2.0% - 3.25%	2.0% - 4.0%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/13 - 9/1/32	9/1/15 - 9/1/34	9/1/16 - 9/1/34	9/1/16 - 9/1/33
Beginning bonds outstanding	\$ 6,205,000	\$ 12,665,000	\$ 2,370,000	\$ 8,520,000
Bonds issued				
Bonds retired	(330,000)	(745,000)	(140,000)	(235,000)
Bond refunded				
Ending bonds outstanding	<u>\$ 5,875,000</u>	<u>\$ 11,920,000</u>	<u>\$ 2,230,000</u>	<u>\$ 8,285,000</u>
Interest paid during fiscal year	<u>\$ 193,181</u>	<u>\$ 411,613</u>	<u>\$ 62,675</u>	<u>\$ 302,150</u>

See accompanying auditors' report.

Bond Issue		
Series 2017 Refunding	Series 2019 Road Refunding	Totals
2.0% - 4.0%	2.0% - 3.0%	
9/1; 3/1	9/1; 3/1	
9/1/18 -	9/1/20 -	
9/1/34	9/1/34	
\$ 2,885,000	\$ -	\$ 41,140,000
	2,685,000	2,685,000
(15,000)		(2,340,000)
		(2,540,000)
<u>\$ 2,870,000</u>	<u>\$ 2,685,000</u>	<u>\$ 38,945,000</u>
<u>\$ 101,600</u>	<u>\$ -</u>	<u>\$ 1,406,435</u>

Fort Bend County Municipal Utility District No. 138
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	\$ 911,392	\$ 755,732	\$ 358,833	\$ 255,776	\$ 288,289
City of Sugar Land tax rebates	174,770	141,912	123,854	90,857	76,541
Investment earnings	27,574	5,415	2,058	2,656	4,232
Total Revenues	1,113,736	903,059	484,745	349,289	369,062
Expenditures					
Operating and administrative					
Professional fees	78,071	91,698	107,392	101,986	81,653
Contracted services	12,918	13,238	13,650	12,975	12,900
Administrative	30,314	30,859	28,788	24,775	32,176
Other					165
Capital outlay	1,068,003	42,774	641,961	479,828	
Debt service					
Developer interest		422	6,629	4,336	
Debt issuance costs			11,685		
Intergovernmental					
TIRZ payments	174,770	141,912	123,854	90,857	55,573
Total Expenditures	1,364,076	320,903	933,959	714,757	182,467
Revenues Over (Under) Expenditures	\$ (250,340)	\$ 582,156	\$ (449,214)	\$ (365,468)	\$ 186,595

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
82%	84%	74%	73%	78%
16%	15%	26%	26%	21%
2%	1%	*	1%	1%
100%	100%	100%	100%	100%
7%	10%	22%	29%	22%
1%	1%	3%	4%	3%
3%	3%	6%	7%	9%
				*
96%	5%	132%	137%	
	*	1%	1%	
		2%		
16%	16%	26%	26%	15%
123%	35%	192%	204%	49%
(23%)	65%	(92%)	(104%)	51%

Fort Bend County Municipal Utility District No. 138

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	\$ 2,521,776	\$ 2,541,863	\$ 2,965,428	\$ 2,916,502	\$ 2,542,375
Penalties and interest	19,187	8,884	48,547	13,861	12,467
City of Sugar Land tax rebates	902,292	1,024,851	983,580	975,408	932,458
Accrued interest on bonds sold				13,751	36,070
Investment earnings	22,710	14,189	7,583	7,179	6,803
Miscellaneous					
Total Revenues	3,465,965	3,589,787	4,005,138	3,926,701	3,530,173
Expenditures					
Tax collection services	56,378	75,300	53,729	44,419	42,599
Other	5,000	10,030	7,560	5,030	5,000
Debt service					
Principal	2,340,000	2,305,000	2,250,000	2,065,000	1,295,000
Debt interest and fees	1,412,484	1,387,903	1,523,718	1,635,292	1,534,128
Debt issuance costs	123,890	130,363		242,745	
Payment to refunded bond escrow agent		48,000			
Total Expenditures	3,937,752	3,956,596	3,835,007	3,992,486	2,876,727
Revenues Over (Under) Expenditures	\$ (471,787)	\$ (366,809)	\$ 170,131	\$ (65,785)	\$ 653,446
Total Active Retail Water Connections	N/A	N/A	N/A	N/A	N/A
Total Active Retail Wastewater Connections	N/A	N/A	N/A	N/A	N/A

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2019	2018	2017	2016	2015
72%	71%	74%	75%	73%
1%	*	1%	*	*
26%	29%	25%	25%	26%
			*	1%
1%	*	*	*	*
100%	100%	100%	100%	100%
2%	2%	1%	1%	1%
*	*	*	*	*
68%	64%	56%	53%	37%
41%	39%	38%	42%	43%
4%	4%		6%	
	1%			
115%	110%	95%	102%	81%
(15%)	(10%)	5%	(2%)	19%

Fort Bend County Municipal Utility District No. 138
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended June 30, 2019

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 14, 2018
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Terrie Gornet	5/2016 - 5/2020	\$ 2,850	\$ 2,804	President
David Keene	5/2016 - 5/2020	2,850	2,242	Vice President
Mark Assise	5/2018 - 5/2022	2,100	2,089	Secretary
Gary Justice	5/2018 - 5/2022	1,500	141	Assistant Vice President
Paula Stephens	5/2016 - 5/2020	3,000	3,387	Assistant Secretary
Consultants				
		Amounts Paid		
Allen Boone Humphries Robinson LLP	2005			Attorney
<i>General legal fees</i>		\$ 62,781		
<i>Bond counsel</i>		40,036		
LJA Engineering and Surveying, Inc.	2005	4,289		Engineer
Myrtle Cruz, Inc.	2005	13,819		Bookkeeper
Tax Tech, Inc.	2005	21,876		Tax Assessor / Collector
Fort Bend Central Appraisal District	Legislation	24,186		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	2006	6,371		Delinquent Tax Attorney
McGrath & Co., PLLC	2011	11,000		Auditor
Masterson Advisors, LLC	2018	29,759		Financial Advisor

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