

## OFFICIAL STATEMENT DATED JULY 23, 2020

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF THE DISTRICT AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE “LEGAL MATTERS” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

### NEW ISSUE-BOOK-ENTRY-ONLY

Insured Rating (BAM): S&P “AA” (stable outlook)  
Underlying Rating: S&P “A+”  
See “MUNICIPAL BOND RATING” and  
“MUNICIPAL BOND INSURANCE” herein.

**\$1,955,000**

**GRAND LAKES WATER CONTROL AND IMPROVEMENT DISTRICT**  
*(A political subdivision of the State of Texas located within Fort Bend County)*  
**UNLIMITED TAX BONDS**  
**SERIES 2020**

**Dated: August 1, 2020**

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

The \$1,955,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are being issued by Grand Lakes Water Control and Improvement District (the “District”). Principal of the Bonds is payable at maturity or prior redemption. Interest on the Bonds initially accrues from August 1, 2020, and is payable on March 1, 2021. Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each March 1 and September 1 until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under “BOOK-ENTRY-ONLY SYSTEM”) of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the paying agent/registrars, initially Regions Bank in Houston, Texas (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. See “BOOK-ENTRY-ONLY SYSTEM.”



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “MUNICIPAL BOND INSURANCE” herein.

### MATURITY SCHEDULE

Principal	Maturity	CUSIP	Interest	Initial
<u>Amount</u>	<u>(March 1)</u>	<u>Number(b)</u>	<u>Rate</u>	<u>Reoffering</u>
\$ 295,000	2030 (a)	385885 CP1	1.75 %	1.50 %
305,000	2031 (a)	385885 CQ9	1.75	1.60
320,000	2032 (a)	385885 CR7	1.75	1.65
330,000	2033 (a)	385885 CS5	1.75	1.70
345,000	2034 (a)	385885 CT3	1.75	1.75
360,000	2035 (a)	385885 CU0	1.75	1.80

- (a) The Bonds are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on March 1, 2022, 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.”
- (b) CUSIP Numbers will be assigned to the Bonds by CUSIP Service Bureau and will be included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial Reoffering Yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any entity other than the District. INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about August 27, 2020.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, 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 Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056, 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 OFFICIAL STATEMENT— Updating the Official Statement.”

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

## OFFICIAL STATEMENT SUMMARY

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

### INFECTIOUS DISEASE OUTLOOK (COVID-19)

#### *General...*

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

#### *Impact...*

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 the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic could have an adverse effect on the District’s operations and financial condition. 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 Outlook (COVID-19).”

### SEVERE WEATHER EVENTS

#### *Hurricane Harvey...*

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

According to the District, the District’s drainage system did not sustain any material damage as a result of Hurricane Harvey. However, according to estimates by the District Engineer approximately 459 homes out of approximately 3,139 within the District experienced flooding or other damage as a result of Hurricane Harvey. A portion of the District is in the Barker Reservoir pool and subject to inundation by the U.S. Army Corps of Engineers at its sole discretion. The District’s taxable value temporarily decreased in 2017 and 2018 as a result of damage resulting from flooding, but the 2019 taxable value returned to prior taxable values. See “TAX DATA-Summary of Assessed Valuation.”

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

## **THE DISTRICT**

### *Description...*

Grand Lakes Water Control and Improvement District (the "District") is a political subdivision of the State of Texas, created originally as Via Ranch Water Control and Improvement District No. 1 by order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ"), dated December 11, 1985. By order dated August 22, 1997, the TCEQ approved the change of the name of the District to its current name. The District operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and other general statutes applicable to water control and improvement districts. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the jurisdiction of the Katy Independent School District. The District consists of approximately 1,717 acres of land. The District overlaps all or portions of five municipal utility districts: Grand Lakes Municipal Utility District No. 1 (approximately 393 acres), Grand Lakes Municipal Utility District No. 2 (approximately 477 acres), Grand Lakes Municipal Utility District No. 4 (approximately 520 acres), Fort Bend County Municipal Utility District No. 35 (approximately 185 acres), and Fort Bend County Municipal Utility District No. 50 (approximately 25 acres). There are also approximately 117 acres within the District that are not included in a municipal utility district. See "THE DISTRICT."

The majority of the District is part of Grand Lakes, a master-planned development project covering approximately 1,390 acres of land planned for approximately 3,200 single-family homes, with each section of homes throughout Grand Lakes separated by large circular green belt areas, serving as parks and traffic control. The Grand Lakes project consists of three (3) municipal utility districts: Grand Lakes Municipal Utility District Nos. 1, 2 and 4. See "THE DISTRICT—The Grand Lakes Project."

Fort Bend County Municipal Utility District No. 35 is part of the Seven Meadows master-planned development.

Fort Bend County Municipal Utility District No. 50 includes the Grand Lakes Crossing subdivision.

Grand Lakes MUD Nos. 1, 2 and 4, and Fort Bend County Municipal Utility District No. 35 finance the water supply and distribution, wastewater collection and treatment, and storm sewer systems in their respective boundaries, and the District provides the major outfall drainage facilities for the area in its boundaries. See "THE DISTRICT."

### *Location...*

The District is located in Fort Bend County, approximately 22 miles west southwest of the central downtown business district of the City of Houston. The District is situated north of FM 1093 and south of Interstate 10 West. The Grand Parkway and Fry Road traverse the District. See "THE DISTRICT."

### *Status of Development...*

Approximately 1,218 acres of land within the District has been developed into Grand Lakes Phase I, Sections 1 through 12 and Section 14, Grand Lakes Phase II, Sections 1 through 6, Grand Lakes Phase III Sections 1 through 11, Grand Lakes Phase IV, Sections 1 through 7, Seven Meadows Sections 9 through 11, Avalon at Seven Meadows Sections 1, 2, 4, and 8 and a portion of Avalon at Seven Meadows, Section 5, which collectively encompass 3,139 single-family residential lots. Homes have been constructed on all 3,139 lots. Grand Lakes Crossing subdivision is comprised of 86 lots on approximately 25 acres located in Fort Bend County Municipal Utility District No. 50.

In addition to the residential development, approximately 72 acres have been developed for commercial purposes, which include a Home Depot, a HEB Grocery Store, the Meadows Marketplace Shopping Center, a Palais Royal department store, a Hobby Lobby, a Whole Foods Market, a Walgreen's Drug Store, a Bank of America, a Trustmark Bank, a JPMorgan Chase Bank, a Wells Fargo Bank, a Knowledge Beginnings daycare center, Carabba's Italian Grill, Cost Plus World Market, Steinmart and two small strip shopping centers, which include various service-oriented businesses and a McDonald's restaurant.

The Aura Grand Apartments (291 units) have been constructed on approximately 15 acres of land in the District.

Katy Independent School District has constructed Roosevelt Alexander Elementary School on approximately 12 acres, the Harmony School on approximately 14 acres and Griffin Elementary School on approximately 13 acres. The Grand Lakes Presbyterian Church has been constructed on approximately 10 acres of land. The schools and church are exempt from ad valorem taxation by the District.

In addition to the development described above, the District has approximately 163 acres of land contained in easements, rights-of-way, recreation and open space land, and plant sites. Approximately 8 acres of land in the District remain to be developed. There are approximately 117 acres that are not located in a municipal utility district and consist of drainage channels and undeveloped acreage.

*Payment Record...*

The District has previously issued \$8,580,000 principal amount of unlimited tax bonds and \$9,480,000 principal amount of unlimited tax refunding bonds. A total of \$2,810,000 of such bonds is currently outstanding (the "Outstanding Bonds"). The District has timely paid its debt service on the Outstanding Bonds.

## THE BONDS

*Description...*

The \$1,955,000 Unlimited Tax Bonds, Series 2020 (the "Bonds") are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the District's Board of Directors (the "Board"). The Bonds are scheduled to mature serially on March 1 in each of the years 2030 through 2035, both inclusive. The Bonds will be issued in book-entry form only in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from August 1, 2020, and is payable on March 1, 2021, and on each September 1 and March 1 thereafter, until the earlier of maturity or prior redemption. See "THE BONDS."

*Book-Entry-Only System...*

The Depository Trust Company ("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 Bond will be issued for each maturity of the Bonds and will be deposited with DTC or its designee. See "BOOK-ENTRY-ONLY SYSTEM."

*Redemption...*

The Bonds 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, 2022, 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 of the Bonds will be used to pay for engineering and construction costs shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." In addition, Bond proceeds will be used to pay engineering fees and administrative costs and certain other costs related to the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

<i>Authority for Issuance...</i>	At elections held within the District on June 14, 1986 and May 1, 1999, voters of the District authorized a total of \$14,650,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a drainage system for the District. The Bonds are the fourth installment from such authorization issued by the District. After sale of the Bonds, the District will have \$4,115,000 principal amount of unlimited tax bonds authorized but unissued for purposes of construction and acquisition of facilities. See “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A+” by S&P without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Schwartz, Page & Harding, L.L.P., Houston, Texas. See “MANAGEMENT” and “LEGAL MATTERS.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT—District Consultants.”
<i>Paying Agent/Registrar...</i>	Regions Bank, Houston, Texas. See “THE BONDS— Method of Payment of Principal and Interest.”

## **INVESTMENT CONSIDERATIONS**

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

## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$1,452,675,243	(a)
2020 Preliminary Taxable Assessed Valuation .....	\$1,505,614,690	(b)
Gross Direct Debt Outstanding (including the Bonds).....	\$ 4,765,000	(c)
Estimated Overlapping Debt .....	<u>107,026,143</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$111,791,143	
Ratios of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation .....	0.33%	
2020 Preliminary Taxable Assessed Valuation.....	0.32%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation .....	7.70%	
2020 Preliminary Taxable Assessed Valuation.....	7.42%	
Operating Funds Available as of May 28, 2020 .....	\$603,305	
Debt Service Funds Available as of May 28, 2020 .....	\$171,873	
2019 Debt Service Tax Rate.....	\$0.02	
2019 Maintenance Tax Rate .....	<u>0.05</u>	
2019 Total Tax Rate.....	\$0.07	
Average Annual Debt Service Requirement (2021-2035).....	\$380,515	(e)
Maximum Annual Debt Service Requirement (2029).....	\$411,613	(e)
Tax Rate Required to Pay Average Annual Debt Service (2021-2035) at a 95% Collection Rate		
2019 Certified Taxable Assessed Valuation.....	\$0.03	(f)
2020 Preliminary Taxable Assessed Valuation .....	\$0.03	(f)
Tax Rate Required to Pay Maximum Annual Debt Service (2029) at a 95% Collection Rate		
2019 Certified Taxable Assessed Valuation.....	\$0.03	(f)
2020 Preliminary Taxable Assessed Valuation .....	\$0.03	(f)
Water and Sewer Connections as of June, 2020:		
Completed Single Family Homes .....	3,139	
Estimated population .....	11,568	(g)
(a)	As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."	
(b)	Provided by the Appraisal District as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to property owner protest, review, and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. The Appraisal District provided a 2020 taxable value of \$1,572,443,540, but also provided a suggested reduction amount of 4.25% (\$66,828,850) in anticipation of higher appeals due to COVID-19. The projected value for 2020 includes the suggested reduction amount. See "TAXING PROCEDURES."	
(c)	See "FINANCIAL STATEMENT (UNAUDITED)—Outstanding Bonds."	
(d)	See "ESTIMATED OVERLAPPING DEBT STATEMENT" and "—Overlapping Tax Rates."	
(e)	See "FINANCIAL STATEMENT (UNAUDITED)—Debt Service Schedule."	
(f)	See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Rates."	
(g)	Based upon 3.5 persons per occupied single-family and 2 persons per apartment unit.	

**OFFICIAL STATEMENT**  
**GRAND LAKES WATER CONTROL AND IMPROVEMENT DISTRICT**  
*(A political subdivision of the State of Texas located within Fort Bend County)*

**\$1,955,000**  
**UNLIMITED TAX BONDS**  
**SERIES 2020**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Grand Lakes Water Control and Improvement District (the "District") of its \$1,955,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued by the District pursuant to elections held within the District, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); an order of the Texas Commission on Environmental Quality (the "TCEQ"), Article XVI, Section 59 of the Texas Constitution; and Chapters 49 and 51 of the Texas Water Code, as amended.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of certain of the documents may be obtained from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of duplication costs therefor.

**THE BONDS**

**General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

**Description**

The Bonds will be dated August 1, 2020, with interest payable on March 1, 2021, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from August 1, 2020, and thereafter, from the most recent Interest Payment Date. The Bonds mature on March 1 of the years and in the amounts shown under "MATURITY SCHEDULE " on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

**Authority for Issuance**

At elections held within the District on June 14, 1986 and May 1, 1999, voters of the District authorized an aggregate total of \$14,650,000 principal amount in unlimited tax bonds for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a drainage system for the District. The Bonds constitute the fourth issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$4,115,000 principal amount of unlimited tax bonds for drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to said elections and to the terms and provisions of the Bond Order, Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; and an order of the TCEQ dated June 15, 2020.

**Source and Security for Payment**

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES." Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this OFFICIAL STATEMENT with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any political subdivision or entity other than the District.



## **Funds**

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

## **Record Date**

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

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on March 1, 2022, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

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

The Board has appointed Regions Bank, having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY- ONLY SYSTEM."

## **Registration**

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully- registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY- ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

## **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

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

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

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

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

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

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

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT-- General." The District's voters have authorized the issuance of a total of \$14,650,000 principal amount of unlimited tax bonds for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a drainage system for the District and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$4,115,000 principal amount of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$14,650,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$14,194,988 principal amount of unlimited tax refunding bonds authorized but unissued.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Issuance of additional bonds could dilute the investment security for the Bonds.

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 fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

## **Financing Recreational Facilities**

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

The District has not considered calling an election for such purposes but could consider doing so in the future. Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

### **Annexation**

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

### **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies."

### **Defeasance**

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

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

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

## BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

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

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

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

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

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

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 DISTRICT**

### **General**

The District is a water control and improvement district created by order of the Texas Water Commission, a predecessor to the TCEQ, dated December 11, 1985, under Article XVI, Section 59 of the Texas Constitution, and operates pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, as amended, and other general statutes of Texas applicable to water control and improvement districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for 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 has not constructed and will not construct water supply or distribution, wastewater collection or treatment or storm sewer systems. Such systems have been constructed or will be constructed by Grand Lakes Municipal Utility District Nos. 1, 2 and 4, Fort Bend County Municipal Utility District No. 35 and Fort Bend County Municipal Utility District No. 50. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities. See "THE BONDS—Issuance of Additional Debt" and "Financing Recreational Facilities."

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of drainage facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Fort Bend County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

### **Description and Location**

The District is located in Fort Bend County, approximately 22 miles west - southwest of the central downtown business district of the City of Houston, generally northeast of the intersection of FM 1093 and the Grand Parkway. The District is situated north of FM 1093 and south of Interstate 10 West. The Grand Parkway and Fry Road traverse the District. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. The District consists of approximately 1,717 acres of land. The District overlaps all or portions of four municipal utility districts: Grand Lakes Municipal Utility District No. 1 (approximately 393 acres); Grand Lakes Municipal Utility District No. 2 (approximately 477 acres); Grand Lakes Municipal Utility District No. 4 (approximately 520 acres); Fort Bend County Municipal Utility District No. 50 (approximately 25 acres), and Fort Bend County Municipal Utility District No. 35 (approximately 185 acres). There are also approximately 117 acres that are not located in any municipal utility district.

The majority of the District is part of a master-planned project known as Grand Lakes covering approximately 1,390 acres of land and planned for approximately 3,200 single-family homes, with each section of homes throughout Grand Lakes separated by large circular green belt areas serving as parks and traffic control. The Grand Lakes project consists of three municipal utility districts: Grand Lakes Municipal Utility District No. 1 ("No. 1"), Grand Lakes Municipal Utility District No. 2 ("No. 2") and Grand Lakes Municipal Utility District No. 4 ("No. 4").

Fort Bend County Municipal Utility District No. 35 (“No. 35”) is part of the Seven Meadows master-planned development.

Fort Bend County Municipal Utility District No. 50 (“No. 50”) includes the Grand Lakes Crossing subdivision.

Each of No. 1, No. 2, No. 4, No. 35 and No. 50 finance and provide the water supply and distribution, wastewater collection and treatment, and storm sewer systems for land within their respective boundaries. The District, which encompasses approximately 1,717 acres, finances and provides the major outfall drainage facilities for the area within its boundaries.

### **Residential Development**

Approximately 1,218 acres of land within the District has been developed into Grand Lakes Phase I, Sections 1 through 12 and Section 14, Grand Lakes Phase II, Sections 1 through 6, Grand Lakes Phase III Sections 1 through 11, Grand Lakes Phase IV, Sections 1 through 7, Seven Meadows Sections 9 through 11, Avalon at Seven Meadows Sections 1, 2, 4, and 8 and a portion of Avalon at Seven Meadows, Section 5, which collectively encompass 3,139 single-family residential lots. Grand Lakes Crossing subdivision is under construction and is comprised of 86 lots on approximately 25 acres located in Fort Bend County Municipal Utility District No. 50. As of June 2020, there were 3,139 completed homes.

### **Other Development**

In addition to the residential development, approximately 72 acres have been developed for commercial purposes, which include a Home Depot, a HEB Grocery Store, the Meadows Marketplace Shopping Center, a Palais Royal department store, a Hobby Lobby, a Whole Foods Market, a Walgreen’s Drug Store, a Bank of America, a Trustmark Bank, a JPMorgan Chase Bank, a Wells Fargo Bank, a Knowledge Beginnings daycare center, Carabba’s Italian Grill, Cost Plus World Market, Steinmart and two small strip shopping centers, which include various service-oriented businesses and a McDonald’s restaurant.

### **Multi-Family Development**

The Aura Grand Apartments (291 units) have been constructed on approximately 15 acres of land in the District.

### **Schools and Churches**

Katy Independent School District has constructed Roosevelt Alexander Elementary School on approximately 12 acres, the Harmony School on approximately 14 acres, and Griffin Elementary School located on approximately 13 acres, all within the District.

The Grand Lakes Presbyterian Church has constructed a church on 10 acres in the District. The schools and church are all exempt from ad valorem taxation by the District.

### **Undeveloped Acreage**

In addition to the development described above, the District has approximately 163 acres of land contained in easements, rights-of-way, recreation and open space land, and plant sites. There are approximately 8 acres of developable land remaining in the District. There are approximately 117 acres which are not located in a municipal utility district and which consists of drainage channels and undeveloped acreage.

## MANAGEMENT

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

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Philip Fruge	President	May 2022
Andrew Reed	Vice President	May 2022
Gina D'Agostino	Secretary	May 2022
Scott Roberts	Assistant Secretary	May 2024
Leticia Gonzalez	Director	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 and General Counsel:** Schwartz, Page & Harding, L.L.P. (“Bond Counsel”) serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

**Financial Advisor:** Masterson Advisors LLC serves as the District’s Financial Advisor (the “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.

**Disclosure Counsel:** The District has engaged McCall, Parkhurst & Horton, L.L.P, as disclosure counsel. The fees paid to disclosure counsel are contingent upon the sale and delivery of the Bonds.

**Engineer:** Costello, Inc. (the “Engineer”) provides consulting civil engineering services to the District.

**Auditor:** The financial statements of the District as of July 31, 2019 and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s July 31, 2019, financial statements.

**Bookkeeper:** The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

**Tax Assessor/Collector:** Land and improvements in the District are being appraised for taxation by the Fort Bend Central Appraisal District. The District contracts with B&A Municipal Tax Services, LLC to act as Tax Assessor/Collector for the District.

## THE SYSTEM

### **Regulation**

According to the Engineer, the District's drainage channel improvements (collectively, the “System”) have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction and operation of the System was accomplished in accordance with the standards and specifications and requirements of such entities and is subject to inspection by each such entity. The Commission exercises continuing supervisory authority over the District. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District and, in some instances, the Commission. Fort Bend County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. The following descriptions are based upon information supplied by the District's Engineer.

## **District Purpose**

The District was created to construct and operate all major drainage and channel improvements necessary to serve the land within the boundaries of the District. No. 1, No. 2, No. 4, No. 35 and No. 50, part or all of which are located within the boundaries of the District, provide internal water distribution and wastewater collection services to the land located within their respective boundaries as well as internal storm drainage facilities connecting with the channels constructed by the District.

## **Water Supply**

The North Fort Bend Water Authority (the "Authority") provides surface water to No. 1, No. 2 and No. 4, which supplies approximately 90% of No. 1, No. 2 and No. 4's demand. No. 1, No. 2 and No. 4 jointly own water production and storage facilities that are operated by No. 4 and are used as backup to the surface water. Water Plant No. 1 includes a 1,800 gpm well. Water Plant No. 2 includes a 1,600 gpm water well and Remote Well No. 3 is a 1,000 gpm water well. According to the Engineer, the water supply facilities are sufficient to serve a total 3,928 equivalent single family connections ("esfc").

Water supply for No. 35 is provided by jointly owned water production and storage facilities serving both No. 35 and Fort Bend County Municipal Utility District No. 34. Water supply facilities include a 1,500 gpm water well capacity and a 1,500 gpm remote water well. No. 35 is also receiving surface water from the Authority.

Water supply for No. 50 is provided by a water plant and a 1,500 gpm well. Additionally, the Authority has begun to supply surface water to No. 50.

## **Wastewater Treatment Facilities**

Wastewater treatment for No. 1, No. 2 and No. 4 is provided by a 900,000 gallon per day ("gpd") wastewater treatment plant owned jointly by No. 1, No. 2 and No. 4 and operated by No. 4.

Wastewater treatment for No. 35 is provided by a 1,000,000 gpd wastewater treatment plant jointly owned with Fort Bend County Municipal Utility District No. 34. No. 35 owns 703,000 gpd of such capacity.

Wastewater treatment for No. 50 is provided by a 700,000 gpd interim wastewater treatment plant. No. 50 has completed the design of a new wastewater treatment plant to replace its interim facility.

## **Storm Drainage Facilities**

The District, in partnership with Willow Fork Drainage District, constructed a channel rectification of approximately 5.6 miles of Willow Fork of Buffalo Bayou and a diversion channel (the "Willow Fork Diversion Channel") on the south side of Willow Fork. Willow Fork of Buffalo Bayou is located on the northern boundary of the District and the Willow Fork Diversion Channel is located on the eastern boundary of the District. Little Prong Creek is located in the western portion of the District. Ditch No. 2 and the Texas Department of Transportation Ditch are located in the southern portion of the District. All drainage from the District is directed to one of these facilities. The ultimate outfall for all of these facilities is the Willow Fork of Buffalo Bayou or the Willow Fork Diversion Channel.

## **Flood Protection and Drainage**

According to estimates by the District Engineer approximately 459 homes out of approximately 3,139 within the District experienced flooding or other damage as a result of Hurricane Harvey. A portion of the District is in the Barker Reservoir pool and subject to inundation by the U.S. Army Corps of Engineers at its sole discretion. The District's taxable value temporarily decreased in 2017 and 2018 as a result of damage resulting from flooding, but the 2019 taxable value returned to prior taxable values. See "TAX DATA-Summary of Assessed Valuation."

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.



According to the Engineer, all land within the District is above the 100-year flood plain elevation as designated by the Federal Emergency Management Administration National Flood Insurance Program Flood Insurance Rate Map for the area, other than land located within the banks of the drainage channels. See “INVESTMENT CONSIDERATIONS—Severe Weather Events; Hurricane Harvey.”

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

**Use and Distribution of Bond Proceeds**

The construction costs below were approved by the TCEQ in its order authorizing the issuance of the Bonds. Non-construction costs are based upon either contract amounts or estimates of various costs by Costello, Inc. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ where required.

**CONSTRUCTION COSTS**

• Drainage Channel Storm Sewer Outfall.....	\$ 228,224
• Joint Willow Fork Diversion Channel Desilting .....	1,004,734
• Contingency.....	246,592
• Engineering.....	221,932
<b>Total Construction Costs.....</b>	<b>\$ 1,701,482</b>

**NON-CONSTRUCTION COSTS**

• Underwriter’s Discount.....	45,953
• Contingency (a).....	12,697
<b>Total Non-Construction Costs.....</b>	<b>\$ 58,650</b>

**ISSUANCE COSTS AND FEES**

• Issuance Costs and Professional Fees.....	\$ 138,025
• Bond Application Report Costs.....	50,000
• State Regulatory Fees.....	6,843
<b>Total Issuance Costs and Fees.....</b>	<b>\$ 194,868</b>
<b>TOTAL BOND ISSUE.....</b>	<b>\$ 1,955,000</b>

(a) Represents surplus funds resulting from the sale of the Bonds at a lower underwriter’s discount than estimated and can be used for purposes allowed and approved by the TCEQ.

## FINANCIAL STATEMENT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$1,452,675,243	(a)
2020 Preliminary Taxable Assessed Valuation .....	\$1,505,614,690	(b)

Gross Direct Debt Outstanding (including the Bonds).....	\$ 4,765,000	
Estimated Overlapping Debt .....	<u>107,026,143</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$111,791,143	

### Ratios of Gross Direct Debt to:

2019 Certified Taxable Assessed Valuation.....	0.33%
2020 Preliminary Taxable Assessed Valuation .....	0.32%

### Ratios of Gross Direct Debt and Estimated Overlapping Debt to:

2019 Certified Taxable Assessed Valuation.....	7.70%
2020 Preliminary Taxable Assessed Valuation .....	7.42%

Operating Fund Balance as of May 28, 2020 .....	\$603,305
Debt Service Fund Balance as of May 28, 2020.....	\$171,873

Area of District – 1,717 Acres  
Estimated 2020 Population – 11,568 (d)

- (a) As certified by the Fort Bend Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable assessed value. Such amount is subject to property owner protest, review, and downward adjustment prior to certification. No tax will be levied on such amount until it is certified. The Appraisal District provided a 2020 taxable value of \$1,572,443,540, but also provided a suggested reduction amount of 4.25% (\$66,828,850) in anticipation of higher appeals due to COVID-19. The projected value for 2020 includes the suggested reduction amount. See “TAXING PROCEDURES.”
- (c) See “FINANCIAL STATEMENT (UNAUDITED)—Outstanding Bonds.”
- (d) Based upon 3.5 persons per occupied single-family and 2 persons per apartment unit.

## Outstanding Bonds

Series	Original Principal Amount	Principal Currently Outstanding
2016 (a)	\$ 3,160,000	\$ 2,810,000
Total	\$ 3,160,000	\$ 2,810,000

- (a) Unlimited tax refunding bonds.

## District Investment Policy

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

## OPERATIONS

### General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District.

### Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements and in the case of financial information for the period ended May 31, 2020, the District's Bookkeeper's records. Reference is made to such records and statements for further and more complete information.

	8/1/2019 to 5/31/2020 (a)	Fiscal Year Ended July 31			
		<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:					
Property Taxes	\$ 690,553	\$ 533,929	\$ 537,933	\$ 433,687	\$ 369,551
Investment Income	4,235	12,365	7,159	5,392	3,100
Other Income	27,063	18,045	17,465	22,418	17,472
Total Revenue	<u>\$ 721,851</u>	<u>\$ 564,339</u>	<u>\$ 562,557</u>	<u>\$ 461,497</u>	<u>\$ 390,123</u>
Expenditures:					
Professional Fees	\$ 80,666	\$ 79,291	\$ 104,762	\$ 110,664	\$ 80,568
Contracted Services	19,854	18,050	17,325	16,139	17,816
Repairs and Maintenance	246,098	761,701	281,105	243,014	196,962
Other Expenditures	14,233	24,495	19,891	22,945	20,137
Capital Outlay	36,021	-	-	377,931	-
Debt Issuance Costs	-	19,904	-	-	-
Total Expenditures	<u>\$ 396,872</u>	<u>\$ 903,441</u>	<u>\$ 423,083</u>	<u>\$ 770,693</u>	<u>\$ 315,483</u>
NET REVENUES	<u>\$ 324,979</u>	<u>\$ (339,102)</u>	<u>\$ 139,474</u>	<u>\$ (309,196)</u>	<u>\$ 74,640</u>
Other Financing Uses					
Interfund Transfers	\$ -	\$ (115,016)	\$ -	\$ -	\$ -
General Operating Fund					
Balance (Beginning of Year)	\$ 346,540	\$ 800,658	\$ 661,184	\$ 970,380	\$ 895,740
General Operating Fund					
Balance (End of Year)	\$ 671,519	\$ 346,540	\$ 800,658	\$ 661,184	\$ 970,380

(a) Unaudited, provided by the District's bookkeeper.

## ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding	As of	Overlapping	
	Bonds		Percent	Amount
Fort Bend County	\$ 559,527,527	5/31/2020	2.04%	\$ 11,414,362
Fort Bend County MUD 35	30,040,000	5/31/2020	28.77%	8,642,508
Grand Lakes MUD 1	7,550,000	5/31/2020	100.00%	7,550,000
Grand Lakes MUD 2	1,755,000	5/31/2020	100.00%	1,755,000
Grand Lakes MUD 4	10,075,000	5/31/2020	100.00%	10,075,000
Fort Bend County MUD 50	64,475,000	5/31/2020	(a)	(a)
Katy Independent School District	1,893,256,959	5/31/2020	3.57%	67,589,273
Total Estimated Overlapping Debt				\$ 107,026,143
Direct Debt (b)				4,765,000
Total Direct and Estimated Overlapping Debt				\$ 111,791,143

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$1,452,675,243 .....	7.70%
2020 Preliminary Taxable Assessed Valuation of \$1,505,614,690 .....	7.42%

(a) Represents less than 1% overlapping value attributable to the District.

(b) Includes the Bonds and the Outstanding Bonds.

### Overlapping Tax Rates

	2019 Tax Rate per \$100 of Taxable Assessed Valuation
Fort Bend County.....	\$ 0.460000
Harris-Fort Bend ESD No. 100.....	\$ 0.100000
Katy ISD.....	1.443100
Fort Bend Co. MUD No. 50 (a).....	0.910000
Total Overlapping Tax Rate.....	\$ 2.913100
The District.....	0.070000
Total Tax Rate.....	\$ 2.983100

(a) Represents the highest tax rate of MUDs in the District. Grand Lakes MUD No. 1 levied a tax of \$0.515 per \$100 assessed valuation in 2019. Grand Lakes MUD No. 2 levied a tax of \$0.24 per \$100 assessed valuation in 2019. Grand Lakes MUD No. 4 levied a tax of \$0.50 per \$100 assessed valuation in 2019. Fort Bend County MUD No. 35 levied a tax of \$0.425 per \$100 assessed valuation in 2019.

## TAX DATA

### **Tax Collections**

The following statement of tax collections sets forth in condensed form the historical tax experience of the District. Such table has been prepared for inclusion herein based upon information obtained from a report prepared by the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Tax Year	Net Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy	Total Collections As of 4/30/2020 (b)	
				Amount	Percent
2015	\$ 1,401,484,599	\$ 0.0665	\$ 930,449	\$ 930,415	100.00%
2016	1,447,954,747	0.0650	940,795	940,606	99.98%
2017	1,437,083,875	0.0650	934,088	933,808	99.97%
2018	1,426,074,942	0.0650	926,958	924,570	99.74%
2019	1,452,675,243	0.0700	1,016,873	988,887	97.25%

(a) As certified by the Appraisal District. See "Tax Roll Information" below.

(b) Unaudited.

Taxes are due upon receipt of bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. No split payments are allowed and no discounts are allowed.

### **Tax Rate Distribution**

	2019	2018	2017	2016	2015
Debt Service Tax	\$0.0200	\$0.0275	\$0.0275	\$0.0350	\$0.0400
Maintenance Tax	<u>0.0500</u>	<u>0.0375</u>	<u>0.0375</u>	<u>0.0300</u>	<u>0.0265</u>
Total District Tax Rate	\$0.0700	\$0.0650	\$0.0650	\$0.0650	\$0.0665

### **Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: \$1.00 per \$100 taxable assessed valuation.

### **Debt Service Tax**

The Board will covenant in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt. The District levied a debt service tax for 2019 at a rate of \$0.02 per \$100 taxable assessed valuation.

### **Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On January 1, 1987, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds and any additional unlimited tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 in the amount of \$0.05 per \$100 assessed valuation.

## **Principal Taxpayers**

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property's taxable assessed value as a percentage of the 2019 Certified Taxable Assessed Valuation of \$1,452,675,243. This represents ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
AG-Hilltop Grand Reserve Property	\$ 31,996,980	2.20%
Meadows Marketplace Shopping Center LP	28,791,270	1.98%
Cinco Grand & Fry Retail LP	20,009,210	1.38%
HD Development Properties LP	8,094,000	0.56%
Katy Mob Partners LLC	7,159,860	0.49%
Home Depot #6561	6,374,900	0.44%
Grand Parkway Shopping Center	5,951,670	0.41%
Jay Parbhu Hospitality LLC	5,278,693	0.36%
HEB Grocery Company LP	5,247,770	0.36%
Mission Entrust Investors LP	5,135,560	0.35%
Total	<u>\$ 124,039,913</u>	<u>8.53%</u>

## **Summary of Assessed Valuation**

The following summaries of the 2015 through 2019 Certified Taxable Assessed Valuations were provided by the District's Tax Assessor/Collector based on information contained in the respective tax rolls of the District. Totals may vary slightly from other data herein due to differences in dates of data.

	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>	<u>2016 Certified Taxable Assessed Valuation</u>	<u>2015 Certified Taxable Assessed Valuation</u>
Land	\$ 349,175,990	\$ 347,680,940	\$ 312,747,810	\$ 308,139,350	\$ 304,901,250
Improvements	1,141,530,401	1,115,995,068	1,157,447,060	1,169,623,414	1,121,094,140
Personal Property	36,241,890	36,110,024	35,048,801	35,847,020	33,185,520
Exemptions	(74,273,038)	(73,711,090)	(68,159,796)	(65,655,037)	(57,696,311)
Total	<u>\$ 1,452,675,243</u>	<u>\$ 1,426,074,942</u>	<u>\$ 1,437,083,875</u>	<u>\$ 1,447,954,747</u>	<u>\$ 1,401,484,599</u>

## **Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District's tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$1,452,675,243 and the 2020 Preliminary Taxable Assessed Valuation of \$1,505,614,690. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in the taxable value in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL STATEMENT (UNAUDITED)—Debt Service Schedule."

Average Annual Debt Service Requirement (2021-2035) .....	\$380,515
\$0.03 Tax Rate on the 2019 Certified Taxable Assessed Valuation .....	\$414,012
\$0.03 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation .....	\$429,100
Maximum Annual Debt Service Requirement (2029) .....	\$411,613
\$0.03 Tax Rate on the 2019 Certified Taxable Assessed Valuation .....	\$414,012
\$0.03 Tax Rate on the 2020 Preliminary Taxable Assessed Valuation .....	\$429,100

No representation or suggestion is made that the 2020 Preliminary Taxable Assessed Valuation will not be adjusted downward prior to certification, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAX PROCEDURES."

## **TAX PROCEDURES**

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

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the 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 wholly within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Fort Bend County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

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

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods- in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

### **General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that 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. For the 2020 tax year, the District has not granted a general residential homestead exemption.

### **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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by 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.

### **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may 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 comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.



### **Agricultural, Open Space, Timberland, and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2020, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

### **Tax Abatement**

The City of Houston or Fort Bend County may designate all or part of the District as a reinvestment zone, and, under certain circumstances, the District, Fort Bend County and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

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

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

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

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION (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 certain special purpose districts, including the District, differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

#### Low Tax Rate Districts

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

#### Developed Districts

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

#### Developing Districts

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

#### The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis. 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 against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rate." 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement 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. 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, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1825, as amended). Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations and Foreclosure Remedies."

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the Outstanding Bonds and the Bonds.

Year	Outstanding Debt Service		Plus: Debt Service on the Bonds			Total Debt Service
			Principal	Interest	Total	
2020	\$ 52,100	(a)	\$ -	\$ -	\$ -	\$ 52,100
2021	365,225		-	37,064	37,064	402,289
2022	367,125		-	34,213	34,213	401,338
2023	363,800		-	34,213	34,213	398,013
2024	368,700		-	34,213	34,213	402,913
2025	371,600		-	34,213	34,213	405,813
2026	373,900		-	34,213	34,213	408,113
2027	370,700		-	34,213	34,213	404,913
2028	376,900		-	34,213	34,213	411,113
2029	377,400		-	34,213	34,213	411,613
2030	-		295,000	31,631	326,631	326,631
2031	-		305,000	26,381	331,381	331,381
2032	-		320,000	20,913	340,913	340,913
2033	-		330,000	15,225	345,225	345,225
2034	-		345,000	9,319	354,319	354,319
2035	-		360,000	3,150	363,150	363,150
Total	\$ 3,387,450		\$ 1,955,000	\$ 417,382	\$ 2,372,382	\$ 5,759,832

(a) Reflects payment due on 9/1/20.

Average Annual Debt Service Requirements (2021-2035) .....	\$380,515
Maximum Annual Debt Service Requirement (2029).....	\$411,613

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Houston 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 and Security for 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 Outlook (COVID-19)**

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with the Pandemic. 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 the Pandemic 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 the Pandemic 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.

While the potential impact of the Pandemic 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. 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 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.

## **Severe Weather Events: Hurricane Harvey**

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

According to the District, the District’s drainage system did not sustain any material damage as a result of Hurricane Harvey. However, according to estimates by the District Engineer approximately 459 homes out of approximately 3,139 within the District experienced flooding or other damage as a result of Hurricane Harvey. A portion of the District is in the Barker Reservoir pool and subject to inundation by the U.S. Army Corps of Engineers at its sole discretion. The District’s taxable value temporarily decreased in 2017 and 2018 as a result of damage resulting from flooding, but the 2019 taxable value returned to prior taxable values. See “TAX DATA-Summary of Assessed Valuation.”

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

## **Specific Flood Type Risks**

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

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

## **Atlas 14**

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties. 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. See “THE SYSTEM.”

## **Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Assessed Valuation of the District (see “FINANCIAL STATEMENT”) is \$1,452,675,243. After issuance of the Bonds, the maximum annual debt service requirement will be \$411,613 (2029) and the average annual debt service requirement will be \$380,515 (2021-2035). Assuming no increase or decrease from the 2019 Certified Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.03 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$411,613 and a tax rate of \$0.03 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$380,515. See “DEBT SERVICE REQUIREMENTS.” Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2019 Certified Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. Any increase in taxable values depends on the continuing construction and sale of homes and other taxable improvements within the District. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

## **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$4,115,000 in principal amount of authorized but unissued unlimited tax bonds for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a drainage system for the District and the \$14,194,988 in principal amount of authorized but unissued unlimited tax bonds for the purpose of refunding the outstanding bonds of the District, and any additional bonds which may be voted hereafter. See “THE BONDS—Issuance of Additional Debt” and “Financing Parks and Recreational Facilities.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct drainage facilities or recreational facilities must be approved by the Commission. The Engineer has stated that the District's authorized but unissued bonds will be adequate to complete the development of the District.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

## **Environmental and Air Quality Regulations**

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

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

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

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

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

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

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

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

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

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

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District is in the process of preparing its Notice of Intent and Stormwater Management Plan to apply for coverage under the MS4 Permit by the July 23, 2019 deadline. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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

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



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

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In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands.

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR went into effect on June 22, 2020, and is currently the subject of ongoing litigation.

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

### **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 “ESTIMATED OVERLAPPING DEBT STATEMENT—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**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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 collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

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

Failure of the District to comply with certain covenants contained in the Bond Order 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 "LEGAL MATTERS—Tax Exemption."

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

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

The obligations of the insurer are contractual obligations and in an event of default by the insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the insurer and no assurance or representation regarding the financial strength or projected financial strength of the insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the insurer, particularly over the life of the investment. See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" for further information provided by the insurer and the Policy, which includes further instructions for obtaining current financial information concerning the insurer.

### **Future and Proposed Legislation**

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

### **Marketability of the Bonds**

The District has no understanding with the Underwriters 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.

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and therefore such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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

### **Legal Review**

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this OFFICIAL STATEMENT under the captioned sections "THE BONDS," "THE DISTRICT—General," "MANAGEMENT—Bond Counsel and General Counsel," "TAX PROCEDURES," and "LEGAL MATTERS," solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

## **Tax Exemption**

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under Section 57 (a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). 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.

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

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

## **Qualified Tax-Exempt Obligations**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

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

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

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

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

Under Existing Law, 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. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and 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, 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 ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any

loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

## **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

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

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

## **NO MATERIAL ADVERSE CHANGE**

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

## **NO-LITIGATION CERTIFICATE**

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

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). S&P has assigned an underlying credit rating of "A+" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from S&P.

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

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

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

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

## **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

### *Additional Information Available from BAM*

*Credit Insights Videos:* For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Credit Profiles:* Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Disclaimers:* The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

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

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by Robert W. Baird & Co., Inc. (the “Initial Purchaser”) bearing the interest rates shown on the cover page of this Official Statement, at a price of 97.6494% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 1.942673% as calculated pursuant to Chapter 1204, Texas Government Code (the “IBA” method).

The prices and other terms with respect to the offering and the sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Initial Purchaser may over-allocate 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 municipal utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, which are more generally bought, sold or traded in the secondary market.

## **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 sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. 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, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Consultants**

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

*Appraisal District:* The information contained in this OFFICIAL STATEMENT relating to the Assessed Valuations of the District have been provided by 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.



*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" and "TAX PROCEDURES" has been provided by B&A Municipal Tax Services, LLC and is included herein in reliance upon the authority of said firm as an expert in collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's water, wastewater, and storm drainage system, and, in particular that information in the sections entitled "THE DISTRICT" and "THE SYSTEM" (as it relates to District facilities) has been provided by the Costello, Inc., included herein in reliance upon the authority of said firm as experts in the field of engineering.

*Auditor:* The financial statements of the District as of July 31, 2019 and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's July 31, 2019, financial statements.

*Bookkeeper:* The information related to the unaudited summary of the District's General Operating Fund as it appears in "GENERAL FUND OPERATIONS" has been provided by Municipal Accounts & Consulting L.P., and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

## **UPDATING THE OFFICIAL STATEMENT**

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriters, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriters, provided, however, that the obligation of the District to the Underwriters to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriters, unless the Underwriters notify 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to an ultimate customer.

## **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**

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to payment of the Bonds; however, in the Bond Order, the District has made the following agreement for the benefit of the holders 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 subject to amendment to or repeal of same as set forth below. Under the agreement, the District will be obligated to provide certain financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system.

## **Annual Reports**

The District will provide annually to the MSRB certain financial information and operating data which is customarily prepared and publicly available. The financial information and operating data which will be provided with respect to the District will be the District's audited financial statements and supplemental schedules as found in "APPENDIX A—District Audited Financial Statements." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

## **Specified Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

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

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

### **Compliance With Prior Undertakings**

The District failed to timely file its annual filing for the fiscal year ended July 31, 2018 due to inadvertently filing the draft annual financial information instead of the final annual financial information. The final annual financial information was filed on July 17, 2020. The District has instituted procedures to ensure timely filing of all future annual financial and operating data information. Except as indicated above, during the last five years, the District has complied in all material respects with its 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 Grand Lakes Water Control and Improvement District, as of the date shown on the cover page.

/s/ Philip Fruge

Grand Lakes Water Control and Improvement District  
President, Board of Directors

ATTEST:

/s/ Gina D'Agostino

Grand Lakes Water Control and  
Improvement District  
Secretary, Board of Directors

**AERIAL PHOTOGRAPH OF THE DISTRICT**  
**(Taken May 2020)**



GRAND LAKES WATER CONTROL  
AND IMPROVEMENT DISTRICT



GRAND PKWY

F.M. 1093



**PHOTOGRAPHS OF THE DISTRICT**  
**(As of May 2020)**



















## **APPENDIX A**

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

# **Grand Lakes Water Control and Improvement District**

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

July 31, 2019



# Grand Lakes Water Control and Improvement District

## July 31, 2019

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## Independent Auditor's Report

Board of Directors  
Grand Lakes Water Control and Improvement District  
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Grand Lakes Water Control and Improvement District (the District), as of and for the year ended July 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### ***Opinions***

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

### ***Other Matters***

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

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

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

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

**BKD, LLP**

Houston, Texas  
December 10, 2019

# **Grand Lakes Water Control and Improvement District**

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

### **July 31, 2019**

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

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

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

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

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

# **Grand Lakes Water Control and Improvement District**

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

### **July 31, 2019**

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

#### **Fund Financial Statements**

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

#### **Governmental Funds**

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

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

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

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

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

# Grand Lakes Water Control and Improvement District

## Management's Discussion and Analysis (Continued)

### July 31, 2019

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

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

#### Summary of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 530,987	\$ 976,140
Capital assets	<u>4,930,434</u>	<u>4,930,434</u>
Total assets	<u>5,461,421</u>	<u>5,906,574</u>
Deferred outflows of resources	<u>150,732</u>	<u>163,885</u>
Total assets and deferred outflows of resources	<u>\$ 5,612,153</u>	<u>\$ 6,070,459</u>
Long-term liabilities	\$ 3,148,379	\$ 3,550,612
Other liabilities	<u>126,204</u>	<u>478,743</u>
Total liabilities	<u>3,274,583</u>	<u>4,029,355</u>
Net position:		
Net investment in capital assets	1,932,787	1,543,707
Restricted	53,834	70,635
Unrestricted	<u>350,949</u>	<u>426,762</u>
Total net position	<u>\$ 2,337,570</u>	<u>\$ 2,041,104</u>

The total net position of the District increased by \$296,466, or 14 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Grand Lakes Water Control and Improvement District**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2019**

**Summary of Changes in Net Position**

	<b>2019</b>	<b>2018</b>
Revenues:		
Property taxes	\$ 926,847	\$ 930,665
Other revenues	40,777	32,473
	<hr/>	<hr/>
Total revenues	967,624	963,138
	<hr/>	<hr/>
Expenses:		
Services	558,491	854,783
Debt service	112,667	108,725
	<hr/>	<hr/>
Total expenses	671,158	963,508
	<hr/>	<hr/>
Change in net position	296,466	(370)
Net position, beginning of year	2,041,104	2,041,474
	<hr/>	<hr/>
Net position, end of year	\$ 2,337,570	\$ 2,041,104
	<hr/>	<hr/>

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

The District's combined fund balances as of the end of the fiscal year ended July 31, 2019, were \$441,792, a decrease of \$477,381 from the prior year.

The general fund's fund balance decreased by \$454,118. This decrease was due to significant repairs and maintenance expenditures in the current year. In addition, there was an interfund transfer to the debt service fund.

The debt service fund's fund balance decreased by \$23,263 because bond principal and interest requirements were greater than property tax revenues generated.

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to repairs and maintenance expenditures being higher than anticipated and an unbudgeted transfer to the debt service fund. The fund balance as of July 31, 2019, was expected to be \$927,833 and the actual end-of-year fund balance was \$346,540.

# Grand Lakes Water Control and Improvement District

## Management's Discussion and Analysis (Continued)

### July 31, 2019

#### Capital Assets and Related Debt

##### Capital Assets

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

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 4,930,434	\$ 4,930,434

During the current year, there were no additions to capital assets.

##### Debt

The changes in the debt position of the District during the fiscal year ended July 31, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$ 3,550,612
Decreases in long-term debt	<u>402,233</u>
Long-term debt payable, end of year	<u>\$ 3,148,379</u>

At July 31, 2019, the District had \$6,070,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the drainage systems within the District.

The District's bonds carry an underlying rating of "A+" from Standard & Poor's. The District's Series 2016 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Co.

#### Other Relevant Factors

##### Relationship to the City of Houston

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

**Grand Lakes Water Control and Improvement District**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**July 31, 2019**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>					
Cash	\$ 5,815	\$ 58,831	\$ 64,646	\$ -	\$ 64,646
Short-term investments	358,802	97,762	456,564	-	456,564
Receivables:					
Property taxes	4,409	3,311	7,720	-	7,720
Other	2,057	-	2,057	-	2,057
Interfund receivable	51,839	-	51,839	(51,839)	-
Capital assets, land and improvements	-	-	-	4,930,434	4,930,434
	<u>422,922</u>	<u>159,904</u>	<u>582,826</u>	<u>4,878,595</u>	<u>5,461,421</u>
Total assets					
<b>Deferred Outflows of Resources</b>					
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>150,732</u>	<u>150,732</u>
Total assets and deferred outflows of resources	<u>\$ 422,922</u>	<u>\$ 159,904</u>	<u>\$ 582,826</u>	<u>\$ 5,029,327</u>	<u>\$ 5,612,153</u>



**Grand Lakes Water Control and Improvement District**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**July 31, 2019**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Liabilities</b>					
Accounts payable	\$ 71,973	\$ 9,502	\$ 81,475	\$ -	\$ 81,475
Accrued interest payable	-	-	-	44,729	44,729
Interfund payable	-	51,839	51,839	(51,839)	-
Long-term liabilities:					
Due within one year	-	-	-	105,000	105,000
Due after one year	-	-	-	3,043,379	3,043,379
Total liabilities	<u>71,973</u>	<u>61,341</u>	<u>133,314</u>	<u>3,141,269</u>	<u>3,274,583</u>
<b>Deferred Inflows of Resources</b>					
Deferred property tax revenues	<u>4,409</u>	<u>3,311</u>	<u>7,720</u>	<u>(7,720)</u>	<u>0</u>
<b>Fund Balances/Net Position</b>					
Fund balances:					
Restricted, unlimited tax bonds	-	95,252	95,252	(95,252)	-
Unassigned	<u>346,540</u>	<u>-</u>	<u>346,540</u>	<u>(346,540)</u>	<u>-</u>
Total fund balances	<u>346,540</u>	<u>95,252</u>	<u>441,792</u>	<u>(441,792)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 422,922</u>	<u>\$ 159,904</u>	<u>\$ 582,826</u>		
Net position:					
Net investment in capital assets				1,932,787	1,932,787
Restricted for debt service				53,834	53,834
Unrestricted				<u>350,949</u>	<u>350,949</u>
Total net position				<u>\$ 2,337,570</u>	<u>\$ 2,337,570</u>

**Grand Lakes Water Control and Improvement District**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended July 31, 2019**

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>					
Property taxes	\$ 533,929	\$ 391,815	\$ 925,744	\$ 1,103	\$ 926,847
Penalty and interest	-	6,624	6,624	-	6,624
Investment income	12,365	3,743	16,108	-	16,108
Other income	18,045	-	18,045	-	18,045
Total revenues	564,339	402,182	966,521	1,103	967,624
<b>Expenditures/Expenses</b>					
Service operations:					
Professional fees	79,291	-	79,291	-	79,291
Contracted services	18,050	40,713	58,763	-	58,763
Repairs and maintenance	761,701	-	761,701	(377,508)	384,193
Other expenditures	24,495	11,749	36,244	-	36,244
Debt service:					
Principal retirement	-	365,000	365,000	(365,000)	-
Interest and fees	-	122,999	122,999	(30,236)	92,763
Debt issuance costs	19,904	-	19,904	-	19,904
Total expenditures/expenses	903,441	540,461	1,443,902	(772,744)	671,158
<b>Deficiency of Revenues Over Expenditures</b>	(339,102)	(138,279)	(477,381)	477,381	
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in (out)	(115,016)	115,016	-	-	
<b>Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out</b>	(454,118)	(23,263)	(477,381)	477,381	
<b>Change in Net Position</b>				296,466	296,466
<b>Fund Balances/Net Position</b>					
Beginning of year	800,658	118,515	919,173	-	2,041,104
End of year	\$ 346,540	\$ 95,252	\$ 441,792	\$ 0	\$ 2,337,570

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

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

Grand Lakes Water Control and Improvement District (the District) was created as Via Ranch Water Control and Improvement District No. 1 by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective December 11, 1985, in accordance with the Texas Water Code, Chapter 51. The District operates in accordance with Chapters 49 and 51 of the Texas Water Code, as amended, and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate drainage facilities and to provide such facilities and services to the landowners of the District.

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

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

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

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

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

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

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

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

The District presents the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

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

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

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

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

##### **Fund Financial Statements**

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

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

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

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

#### ***Interfund Transactions***

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

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

#### ***Pension Costs***

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

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

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

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

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

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

#### ***Property Taxes***

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

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended July 31, 2019, include collections during the current period or within 60 days of year-end related to the 2018 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended July 31, 2019, the 2018 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

#### ***Capital Assets***

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

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

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

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

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

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

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

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

# Grand Lakes Water Control and Improvement District

## Notes to Financial Statements

### July 31, 2019

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

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

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

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

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

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 4,930,434
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	7,720
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	150,732
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(44,729)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(3,148,379)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ 1,895,778</u>

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



# Grand Lakes Water Control and Improvement District

## Notes to Financial Statements

### July 31, 2019

Change in fund balances.	\$ (477,381)
Repairs and maintenance expenditures in the current period for liabilities included in the prior year are not a current expense.	377,508
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	365,000
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statements of activities.	1,103
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<div style="border-top: 1px solid black;">30,236</div>
Change in net position of governmental activities.	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 296,466</div>

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

### ***Deposits***

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

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

At July 31, 2019, none of the District's bank balances were exposed to custodial credit risk.

### ***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States,

# Grand Lakes Water Control and Improvement District

## Notes to Financial Statements

### July 31, 2019

other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

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

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At July 31, 2019, the District had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
Texas CLASS	\$ 456,564	\$ 456,564	\$ 0	\$ 0	\$ 0

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

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2019, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

### **Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheet and statement of net position at July 31, 2019, as follows:

Carrying value:	
Deposits	\$ 64,646
Investments	456,564
Total	\$ 521,210

# Grand Lakes Water Control and Improvement District

## Notes to Financial Statements

### July 31, 2019

#### ***Investment Income***

Investment income of \$16,108 for the year ended July 31, 2019, consisted of interest income.

#### ***Fair Value Measurements***

The District has the following recurring fair value measurements as of July 31, 2019:

- Pooled investments of \$456,564 are valued at fair value per share of the pool's underlying portfolio.

#### **Note 3: Capital Assets**

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

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 4,930,434	\$ 0	\$ 4,930,434

#### **Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended July 31, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 3,280,000	\$ 365,000	\$ 2,915,000	\$ 105,000
Add premiums on bonds	270,612	37,233	233,379	-
Total governmental activities long-term liabilities	\$ 3,550,612	\$ 402,233	\$ 3,148,379	\$ 105,000

# Grand Lakes Water Control and Improvement District

## Notes to Financial Statements

### July 31, 2019

#### **General Obligation Bonds**

	<b>Refunding Series 2016</b>
Amount outstanding, July 31, 2019	\$2,915,000
Interest rates	3.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2020/2029
Interest payment dates	September 1/ March 1
Callable date*	March 1, 2023

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

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

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at July 31, 2019.

Year	Principal	Interest	Total
2020	\$ 105,000	\$ 107,350	\$ 212,350
2021	265,000	104,200	369,200
2022	275,000	96,250	371,250
2023	280,000	88,000	368,000
2024	295,000	79,600	374,600
2025-2029	<u>1,695,000</u>	<u>209,400</u>	<u>1,904,400</u>
Total	<u>\$ 2,915,000</u>	<u>\$ 684,800</u>	<u>\$ 3,599,800</u>

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

Bonds voted	\$ 14,650,000
Bonds sold	8,580,000
Refunding bonds voted	14,650,000
Refunding bond authorization used	455,012

# **Grand Lakes Water Control and Improvement District**

## **Notes to Financial Statements**

### **July 31, 2019**

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

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended July 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.0275 per \$100 of assessed valuation, which resulted in a tax levy of \$392,179 on the taxable valuation of \$1,426,105,382 for the 2018 tax year. The interest and principal requirements to be paid from the tax revenues are \$479,738 of which \$426,063 has been paid and \$53,675 is due September 1, 2019.

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

At an election held January 17, 1987, voters authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property within the District subject to taxation. During the year ended July 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.0375 per \$100 of assessed valuation, which resulted in a tax levy of \$534,789 on the taxable valuation of \$1,426,105,382 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

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

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

#### **Note 8: Hurricane Harvey**

The Houston area sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District sustained damage at its diversion channel for which costs to repair are shared with Willow Fork Drainage District. During the year ended July 31, 2019, the District incurred costs related to Hurricane Harvey of \$450,514.

## **Required Supplementary Information**

**Grand Lakes Water Control and Improvement District**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended July 31, 2019**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 528,300	\$ 533,929	\$ 5,629
Investment income	1,050	12,365	11,315
Other income	17,900	18,045	145
	<hr/>	<hr/>	<hr/>
Total revenues	547,250	564,339	17,089
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Service operations:			
Professional fees	92,000	79,291	12,709
Contracted services	17,000	18,050	(1,050)
Repairs and maintenance	232,950	761,701	(528,751)
Other expenditures	28,125	24,495	3,630
Capital outlay	50,000	-	50,000
Debt service, debt issuance costs	-	19,904	(19,904)
	<hr/>	<hr/>	<hr/>
Total expenditures	420,075	903,441	(483,366)
	<hr/>	<hr/>	<hr/>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	127,175	(339,102)	(466,277)
<b>Other Financing Uses</b>			
Interfund transfers out	-	(115,016)	(115,016)
	<hr/>	<hr/>	<hr/>
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	127,175	(454,118)	(581,293)
<b>Fund Balance, Beginning of Year</b>	800,658	800,658	-
	<hr/>	<hr/>	<hr/>
<b>Fund Balance, End of Year</b>	\$ 927,833	\$ 346,540	\$ (581,293)
	<hr/>	<hr/>	<hr/>

# **Grand Lakes Water Control and Improvement District**

## **Notes to Required Supplementary Information**

### **July 31, 2019**

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

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

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



## **Other Information**

**Grand Lakes Water Control and Improvement District**  
**Other Schedules Included Within This Report**  
**July 31, 2019**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 11-21
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

**Grand Lakes Water Control and Improvement District**  
**Schedule of Services and Rates**  
**Year Ended July 31, 2019**

1. Services provided by the District:

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

**Grand Lakes Water Control and Improvement District**  
**Schedule of General Fund Expenditures**  
**Year Ended July 31, 2019**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	17,400	
Legal		44,089	
Engineering		17,802	
Financial advisor		-	79,291
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			-
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping		18,050	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	18,050
<b>Utilities</b>			-
<b>Repairs and Maintenance</b>			761,701
<b>Administrative Expenditures</b>			
Directors' fees		6,900	
Office supplies		1,732	
Insurance		4,111	
Other administrative expenditures		11,752	24,495
<b>Capital Outlay</b>			
Capitalized assets		-	
Expenditures not capitalized		-	-
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			-
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			19,904
Total expenditures		\$	903,441

**Grand Lakes Water Control and Improvement District**  
**Schedule of Temporary Investments**  
**July 31, 2019**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Texas CLASS	2.37%	Demand	\$ 358,802	\$ -
<b>Debt Service Fund</b>				
Texas CLASS	2.37%	Demand	<u>97,762</u>	<u>-</u>
Totals			<u><u>\$ 456,564</u></u>	<u><u>\$ 0</u></u>

**Grand Lakes Water Control and Improvement District**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended July 31, 2019**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 3,612	\$ 3,005
Additions and corrections to prior years' taxes	<u>(63)</u>	<u>(58)</u>
Adjusted receivable, beginning of year	<u>3,549</u>	<u>2,947</u>
 <b>2018 Original Tax Levy</b>	 531,320	 389,635
Additions and corrections	<u>3,469</u>	<u>2,544</u>
Adjusted tax levy	<u>534,789</u>	<u>392,179</u>
Total to be accounted for	538,338	395,126
Tax collections: Current year	(530,683)	(389,167)
Prior years	<u>(3,246)</u>	<u>(2,648)</u>
Receivable, end of year	<u><u>\$ 4,409</u></u>	<u><u>\$ 3,311</u></u>
 <b>Receivable, by Years</b>		
2018	\$ 4,106	\$ 3,012
2017	172	126
2016	88	103
2015	13	20
2014	1	2
2013	3	4
2012	2	2
2011	12	21
2010	<u>12</u>	<u>21</u>
Receivable, end of year	<u><u>\$ 4,409</u></u>	<u><u>\$ 3,311</u></u>

**Grand Lakes Water Control and Improvement District**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended July 31, 2019**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Property Valuations</b>				
Land	\$ 347,680,940	\$ 312,747,810	\$ 308,139,350	\$ 304,901,250
Improvements	1,115,995,068	1,157,447,060	1,169,623,414	1,121,094,140
Personal property	36,128,464	35,099,141	35,849,640	32,801,420
Exemptions	<u>(73,699,090)</u>	<u>(68,154,796)</u>	<u>(65,538,856)</u>	<u>(57,583,338)</u>
Total property valuations	<u>\$ 1,426,105,382</u>	<u>\$ 1,437,139,215</u>	<u>\$ 1,448,073,548</u>	<u>\$ 1,401,213,472</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.0275	\$ 0.0275	\$ 0.0350	\$ 0.0400
Maintenance tax rates*	<u>0.0375</u>	<u>0.0375</u>	<u>0.0300</u>	<u>0.0265</u>
Total tax rates per \$100 valuation	<u>\$ 0.0650</u>	<u>\$ 0.0650</u>	<u>\$ 0.0650</u>	<u>\$ 0.0665</u>
<b>Tax Levy</b>	<u>\$ 926,968</u>	<u>\$ 934,140</u>	<u>\$ 941,248</u>	<u>\$ 931,807</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.00 on January 17, 1987

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

**Grand Lakes Water Control and Improvement District**  
**Schedule of Long-term Debt Service Requirements by Years**  
**July 31, 2019**

Due During Fiscal Years Ending July 31	Refunding Series 2016		
	Principal Due March 1	Interest Due September 1, March 1	Total
2020	\$ 105,000	\$ 107,350	\$ 212,350
2021	265,000	104,200	369,200
2022	275,000	96,250	371,250
2023	280,000	88,000	368,000
2024	295,000	79,600	374,600
2025	310,000	67,800	377,800
2026	325,000	55,400	380,400
2027	335,000	42,400	377,400
2028	355,000	29,000	384,000
2029	370,000	14,800	384,800
Totals	<u>\$ 2,915,000</u>	<u>\$ 684,800</u>	<u>\$ 3,599,800</u>



# Grand Lakes Water Control and Improvement District

## Changes in Long-term Bonded Debt

### Year Ended July 31, 2019

	Bond Issues		
	Refunding Series 2010	Refunding Series 2016	Totals
Interest rates	4.50%	3.00% to 4.00%	
Dates interest payable	September 1/ March 1	September 1/ March 1	
Maturity dates		March 1, 2020/2029	
Bonds outstanding, beginning of current year	\$ 255,000	\$ 3,025,000	\$ 3,280,000
Retirements, principal	<u>255,000</u>	<u>110,000</u>	<u>365,000</u>
Bonds outstanding, end of current year	<u>\$ 0</u>	<u>\$ 2,915,000</u>	<u>\$ 2,915,000</u>
Interest paid during current year	<u>\$ 11,475</u>	<u>\$ 110,650</u>	<u>\$ 122,125</u>
Paying agent's name and address:			
Series 2010 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas			
Series 2016 - Regions Bank, Houston, Texas			
Bond authority:			
	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 14,650,000	0	\$ 14,650,000
Amount of authorization issued	<u>\$ 8,580,000</u>	<u>0</u>	<u>\$ 455,012</u>
Remaining authorization to be issued	<u>\$ 6,070,000</u>	<u>0</u>	<u>\$ 14,194,988</u>
Debt service fund cash and temporary investment balances as of July 31, 2019:			<u>\$ 156,593</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 359,980</u>

# Grand Lakes Water Control and Improvement District

## Comparative Schedule of Revenues and Expenditures – General Fund

### Five Years Ended July 31,

	Amounts				
	2019	2018	2017	2016	2015
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 533,929	\$ 537,933	\$ 433,687	\$ 369,551	\$ 358,325
Investment income	12,365	7,159	5,392	3,100	2,773
Other income	18,045	17,465	22,418	17,472	241,523
Total revenues	564,339	562,557	461,497	390,123	602,621
<b>Expenditures</b>					
Service operations:					
Professional fees	79,291	104,762	110,664	80,568	63,421
Contracted services	18,050	17,325	16,139	17,816	16,471
Repairs and maintenance	761,701	281,105	243,014	196,962	160,678
Other expenditures	24,495	19,891	22,945	20,137	28,446
Capital outlay	-	-	377,931	-	230,193
Debt service:					
Debt issuance costs	19,904	-	-	-	-
Total expenditures	903,441	423,083	770,693	315,483	499,209
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(339,102)	139,474	(309,196)	74,640	103,412
<b>Other Financing Uses</b>					
Interfund transfers out	(115,016)	-	-	-	-
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	(454,118)	139,474	(309,196)	74,640	103,412
<b>Fund Balance, Beginning of Year</b>	800,658	661,184	970,380	895,740	792,328
<b>Fund Balance, End of Year</b>	\$ 346,540	\$ 800,658	\$ 661,184	\$ 970,380	\$ 895,740
<b>Total Active Retail Water Connections</b>	N/A	N/A	N/A	N/A	N/A
<b>Total Active Retail Wastewater Connections</b>	N/A	N/A	N/A	N/A	N/A

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
94.6 %	95.6 %	93.9 %	94.7 %	59.5 %
2.2	1.3	1.2	0.8	0.4
3.2	3.1	4.9	4.5	40.1
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
14.1	18.6	24.0	20.6	10.5
3.2	3.1	3.5	4.6	2.7
135.0	50.0	52.6	50.5	26.7
4.3	3.5	5.0	5.2	4.7
-	-	81.9	-	38.2
3.5	-	-	-	-
<u>160.1</u>	<u>75.2</u>	<u>167.0</u>	<u>80.9</u>	<u>82.8</u>
<u>(60.1) %</u>	<u>24.8 %</u>	<u>(67.0) %</u>	<u>19.1 %</u>	<u>17.2 %</u>

**Grand Lakes Water Control and Improvement District**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended July 31,**

	Amounts				
	2019	2018	2017	2016	2015
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 391,815	\$ 395,389	\$ 506,546	\$ 557,914	\$ 576,246
Penalty and interest	6,624	7,840	6,257	4,775	6,734
Investment income	3,743	3,037	1,845	1,236	819
Total revenues	402,182	406,266	514,648	563,925	583,799
<b>Expenditures</b>					
Current:					
Professional fees	-	1,541	1,735	606	2,675
Contracted services	40,713	39,236	38,056	38,243	37,804
Other expenditures	11,749	13,415	10,440	10,766	10,278
Debt service:					
Principal retirement	365,000	350,000	350,000	340,000	325,000
Interest and fees	122,999	137,822	140,359	203,278	216,249
Debt issuance costs	-	-	-	129,002	-
Total expenditures	540,461	542,014	540,590	721,895	592,006
<b>Deficiency of Revenues Over Expenditures</b>	(138,279)	(135,748)	(25,942)	(157,970)	(8,207)
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in	115,016	-	-	-	-
General obligation bonds issued	-	-	-	3,160,000	-
Premium on debt issued	-	-	-	291,313	-
Deposit with escrow agent	-	-	-	(3,316,589)	-
Total other financing sources	115,016	0	0	134,724	0
<b>Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(23,263)	(135,748)	(25,942)	(23,246)	(8,207)
<b>Fund Balance, Beginning of Year</b>	118,515	254,263	280,205	303,451	311,658
<b>Fund Balance, End of Year</b>	\$ 95,252	\$ 118,515	\$ 254,263	\$ 280,205	\$ 303,451

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
97.4 %	97.3 %	98.4 %	98.9 %	98.7 %
1.7	1.9	1.2	0.9	1.2
0.9	0.8	0.4	0.2	0.1
100.0	100.0	100.0	100.0	100.0
-	0.4	0.3	0.1	0.4
10.1	9.7	7.4	6.8	6.5
2.9	3.3	2.0	1.9	1.8
90.7	86.2	68.0	60.3	55.7
30.6	33.9	27.3	36.0	37.0
-	-	-	22.9	-
134.3	133.5	105.0	128.0	101.4
(34.3) %	(33.5) %	(5.0) %	(28.0) %	(1.4) %

# Grand Lakes Water Control and Improvement District

## Board Members, Key Personnel and Consultants

### Year Ended July 31, 2019

Complete District mailing address:	Grand Lakes Water Control and Improvement District c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056
District business telephone number:	713.623.4531
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	October 25, 2018
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Philip Fruge	Elected 05/18- 05/22	\$ 1,500	\$ 439	President
Andrew Reed	Elected 05/18- 05/22	1,050	24	Vice President
Gina D'Agostino	Elected 05/18- 05/22	1,350	722	Secretary
Scott Roberts	Elected 05/16- 05/20	1,050	64	Assistant Secretary
Leticia Gonzales	Appointed 10/18- 05/20	1,800	1,428	Director
Terry Medford	Elected 05/16- 10/18	150	24	Resigned

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

**Grand Lakes Water Control and Improvement District**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended July 31, 2019**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
B&A Municipal Tax Service, LLC	09/01/12	\$ 46,471	Tax Assessor/ Collector
BKD, LLP	05/15/90	17,400	Auditor
Costello, Inc.	1992	38,237	Engineer
Fort Bend Central Appraisal District	Legislative Action	5,882	Appraiser
Masterson Advisors LLC	04/26/18	0	Financial Advisor
Municipal Accounts & Consulting, L.P.	02/03/86	19,545	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	01/14/97	0	Delinquent Tax Attorney
Schwartz, Page & Harding, L.L.P.	02/03/86	44,738	Attorney
<b>Investment Officers</b>			
Mark M. Burton and Ghia Lewis	02/25/03	N/A	Bookkeepers

## **APPENDIX B**

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





## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN