

**OFFICIAL STATEMENT DATED MAY 28, 2020**

**NEW ISSUE-BOOK-ENTRY-ONLY**

**RATINGS: AGM Insured S&P “AA” (stable outlook); Moody’s “A2” (stable outlook)  
Moody’s Underlying “Baa3”  
See “MUNICIPAL BOND RATINGS” AND “BOND INSURANCE”**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District, interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions existing on the date thereof of such opinion, subject to the matters described under “TAX MATTERS.”*

*THE DISTRICT HAS DESIGNATED THE BONDS AS “QUALIFIED TAX-EXEMPT OBLIGATIONS for financial institutions.” See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.*

**\$1,650,000  
COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1  
(A Political Subdivision of the State of Texas Located in Travis County, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**Dated: June 25, 2020**

**Due: September 1, as shown on the inside cover page**

The \$1,650,000 Cottonwood Creek Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) constitute obligations solely of Cottonwood Creek Municipal Utility District No. 1 (the “District”) and are not obligations of the State of Texas (the “State”); the City of Manor, Texas; Travis County, Texas; or any entity other than the District. The Bonds will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple of \$5,000. Interest on the Bonds accrues from the date of delivery, currently anticipated to be June 25, 2020, and is payable March 1, 2021 and each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the paying agent/registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY-SYSTEM.” The initial paying agent/registrar (the “Paying Agent”) for the Bonds is UMB Bank, N.A., Austin, Texas.

The Bonds are being issued to currently refund a portion of the District’s outstanding Unlimited Tax Refunding Bonds, Series 2013 to achieve a debt service savings and pay the costs of issuing the Bonds. See “PLAN OF FINANCING.”

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 **ASSURED GUARANTY MUNICIPAL CORP.** See “BOND INSURANCE.”



THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as, and if issued by the District, subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the District. Certain legal matters will be passed upon for the Underwriter named below (the “Underwriter”) by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The Bonds in definitive form are expected to be available for delivery in book-entry form through DTC, on June 25, 2020.

<p><b>MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, REDEMPTION PROVISIONS AND CUSIP NUMBERS</b> (see inside cover page)</p>
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**UMB BANK**

**MATURITY SCHEDULE**  
(Due September 1)

CUSIP Prefix: 221843

Due	Principal Amount	Interest Rate	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>	Due	Principal Amount	Interest Rate	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>
2022	\$ 110,000	4.000%	1.300%	FV2	2024	\$ 120,000	4.000%	1.500%	FX8
2023	115,000	4.000%	1.400%	FW0	2025	125,000	4.000%	1.600%	FY6
<p>\$270,000 3.000% Term Bond due September 1, 2027 Yield 1.750% <sup>(b)</sup> CUSIP Suffix FZ3 <sup>(c)</sup></p> <p>\$285,000 3.000% Term Bond due September 1, 2029 <sup>(a)</sup> Yield 1.950% <sup>(b)</sup> CUSIP Suffix GA7 <sup>(c)</sup></p> <p>\$310,000 2.000% Term Bond due September 1, 2031 <sup>(a)</sup> Yield 2.200% <sup>(b)</sup> CUSIP Suffix GB5 <sup>(c)</sup></p> <p>\$315,000 2.125% Term Bond due September 1, 2033 <sup>(a)</sup> Yield 2.400% <sup>(b)</sup> CUSIP Suffix GC3 <sup>(c)</sup></p>									

- (a) The District reserves the right to redeem, prior to maturity, in integrals of \$5,000, those Bonds maturing on and after September 1, 2029, in whole or from time to time in part, on September 1, 2027 or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2027, September 1, 2029, September 1, 2031, and September 1, 2033 (the “Term Bonds”) are also subject to mandatory sinking fund redemption. See “THE BONDS – Redemption.”
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first allowable redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services provided by CUSIP Global Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of certain maturities of the Bonds.

**Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM, supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX C – Specimen Municipal Bond Insurance Policy.”**

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor (hereinafter defined). This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinion, or that they will be realized.

Any references to website addresses presented herein are for informational purposes only and may in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites, and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District's General Counsel, for further information.

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 the 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, other matters described in the Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "OFFICIAL STATEMENT – Updating the Official Statement During Underwriting Period."

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE BOND INSURER.

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

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

### **Underwriting**

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions, to purchase the Bonds from the District pursuant to a bond purchase agreement (the "Bond Purchase Agreement") for \$1,698,865.72 (an amount equal to the principal amount of the Bonds, plus a net original issue premium of \$69,401.55, less an Underwriter's discount of \$20,535.83).

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

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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.

### **Securities Laws**

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

The statements contained in this Official Statement and in other information provided by the District that are not purely historical are forward-looking statements, including regarding the District's expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. See "INVESTMENT CONSIDERATIONS- Forward-Looking Statements."

Subject to prevailing market conditions, the Initial Purchaser intends, but is not obligated, to make a market in the Bonds. There is presently no secondary market for the Bonds and no assurance that a secondary market for the Bonds will develop, or, if developed, will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. See "INVESTMENT CONSIDERATIONS – Infectious Disease Outlook (COVID-19)." Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes. See "INVESTMENT CONSIDERATIONS – No Certainty of a Secondary Market."

### **MUNICIPAL BOND RATINGS**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign a ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, to the Bonds, as a result of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "Baa3" to the Bonds.

An explanation of the significance of a rating may be obtained from Moody's, the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **BOND INSURANCE**

#### **Bond Insurance Policy**

Concurrently, with the issuance of the Bonds, Assurance Guaranty Municipal Corp. ("AGM") 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 an appendix 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.

#### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

#### *Capitalization of AGM*

At March 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,573 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$997 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,997 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent

that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

*Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE".

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## OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

### THE DISTRICT

The District..... The Cottonwood Creek Water Control and Improvement District No. 1 was created by an order of the Travis County Commissioners Court on June 4, 1985 and confirmed pursuant to an election held within the District on May 7, 1988. The District was subsequently converted to a municipal utility district and its name was changed to Cottonwood Creek Municipal Utility District No. 1 (the “District”). The District is a political subdivision of the State of Texas and its conversion to a municipal utility district was approved by order of the Texas Natural Resource Conservation Commission, a predecessor to the Texas Commission on Environmental Quality (the “TCEQ”) on August 13, 2001. The District exists among other purposes, for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”

The District is one of four political subdivisions, also including Travis County Municipal Utility District No. 2, Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2 (collectively, the “Participants” and individually, a “Participant”), created to provide water, wastewater and storm drainage to approximately 1,514 acres located within eastern Travis County, Texas. See “THE MASTER DISTRICT.”

Location ..... The District, which encompasses approximately 417.70 acres of land, of which all are developable, is located in Travis County approximately 11 miles northeast of downtown Austin and on the north side of U.S. Highway 290. It is northeast of and entirely within the extraterritorial jurisdiction of the City of Manor, Texas (the “City”). See “LOCATION MAP.”

Master District Service Area..... The Participants currently compromise approximately 1,514 acres (the “Service Area”) which include two master planned communities (ShadowGlen and Presidential Meadows) designed to ultimately contain single-family, multi-family, commercial, retail and office development as well as recreational amenities. All of the Participants have designated Wilbarger Creek Municipal Utility District No. 2 (the “Master District”) to serve as the master district and regional provider of all major water, wastewater and drainage facilities to serve the approximately 1,514 acres within the Service Area pursuant to provisions of the “Amended and Restated Contract for Financing and Operation of Regional Waste Collection, Treatment, and Disposal Facilities, Regional Water Supply and Delivery Facilities, and Regional Drainage, Including Water Quality Facilities” (the “Master District Contract”), between the Master District and the Participants. Each Participant has agreed to levy a contract tax, unlimited as to rate or amount, as necessary, to pay costs under the Master District Contract, including its pro rate share of debt service on bonds issued by the Master District for the regional water, wastewater, and drainage facilities. Each Participant is responsible for constructing and financing its own internal water, wastewater, and drainage facilities. See “THE MASTER DISTRICT” and “INVESTMENT CONSIDERATIONS.”

The Developer ..... The developer currently active within the District is KB Home Lone Star, Inc. (“KB Home” or the “Developer”), a Texas corporation. KB Home has purchased (or has under contract to purchase) certain single-family acreage from SVWW (as defined below) and Presidential (as defined below); although KB Home will be developing utility facilities to serve such acreage, SVWW and Presidential have retained reimbursement rights to relevant bond proceeds. SVWW Manor Limited Partnership (“SVWW”) was the previous developer in the District but no longer owns any undeveloped land within the District. SVWW’s affiliated entity, Presidential Meadows Limited Partnership (“Presidential”), a Texas limited partnership, is a major landowner within the District and owns approximately 86.11 developable acres. IBC Partners, Inc., (“IBC”) another landowner within the District, has retained approximately 45 acres of commercial frontage along U.S. 290. See “THE DEVELOPERS – Description of Developer” and “THE DISTRICT – Historical and Current Status of Development.”

Status of Development ..... Development of the District commenced in October 2002. According to KB Home, as of May 18, 2020 approximately 311.7040 acres (or 74.62% of the approximately 417.70 developable acres within the District) had been or were currently being developed with utility facilities as the single-family residential subdivisions of Presidential Meadows, Sections 1 through 13, encompassing a total of 1,291 developed single-family lots, including 1,116 completed homes, 48 homes under construction, and 127



vacant developed single-family lots. As of May 18, 2020, Presidential Meadows Section 14 (6.389 acres; platted as 42 single-family lots) and Presidential Meadows Section 15 (13.966 acres; platted as 85 single-family lots) were under construction. The District also contains 2.5 acres of commercial acreage, an amenity center, and an elementary school, which are included in the approximately 351.664 developed acreage. As of May 18, 2020, there are approximately 85.64 remaining developable acres within the District, including 1.40 acres for a future storage tank. See “THE DISTRICT – Historical and Current Status of Development.”

Homebuilder..... KB Home is currently the active homebuilder within the District. According to KB Home, the homes range in price from approximately \$200,995 to \$240,995, with square footage ranging from approximately 1,234 to 2,495. See “THE DEVELOPER – Homebuilder within the District.”

## THE BONDS

Description..... The \$1,650,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) mature serially in varying amounts on September 1 of each of the years 2022 through 2025, inclusive, and as term bonds (the “Term Bonds”) which mature on September 1, 2027, September 1, 2029, September 1, 2031, and September 1, 2033, as set forth on the inside cover page hereof. Interest accrues from the date of delivery, currently anticipated to be June 25, 2020 at the rates per annum set forth on the inside cover page hereof and is payable on March 1, 2021 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS - General Description.”

Redemption ..... The District reserves the right to redeem, prior to maturity, in integrals of \$5,000, those Bonds maturing on and after September 1, 2029, in whole or from time to time in part, on September 1, 2027 or on any date at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds maturing September 1, 2027, September 1, 2029, September 1, 2031, and September 1, 2033 are also subject to mandatory sinking fund redemption. See “THE BONDS - Redemption.”

Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” **The Bonds are obligations solely of the District and are not obligations of the City of Manor, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.** See “THE BONDS - Source of and Security for Payment.”

Payment Record..... The District has previously issued five (5) installments of unlimited tax new money bonds and one (1) installment of unlimited tax refunding bonds. The District has never defaulted on the timely payment of principal and interest on its previously issued obligations entitled: “\$2,500,000 Unlimited Tax Bonds, Series 2006” (the “Series 2006 Bonds”); “\$2,395,000 Unlimited Tax Refunding Bonds, Series 2013” (the “Series 2013 Bonds”); “\$2,500,000 Unlimited Tax Bonds, Series 2016” (the “Series 2016 Bonds”); “\$4,040,000 Unlimited Tax Bonds, Series 2017” (the “Series 2017 Bonds”); “\$3,000,000 Unlimited Tax Bonds, Series 2018” (the “Series 2018 Bonds”); and “\$3,000,000 Unlimited Tax Bonds, Series 2019” (the “Series 2019 Bonds”). The proceeds of each installment of unlimited tax new money bonds included up to 24 months of capitalized interest. See “FINANCIAL STATEMENT - Outstanding Bonds – Table 6.”

In addition to the direct debt obligations of the District, the District is a party to the Master District Contract under which the District has agreed to pay a pro rata share of debt service on bonds issued from time to time by the Master District for certain major facilities to provide regional water, wastewater and drainage to all Participants. Each Participant has entered into the Master District Contract. The Master District has an outstanding total of \$21,475,000 aggregate principal amount of contract tax bonds issued as the following: “\$2,595,000 Unlimited Contract Tax Refunding Bonds, Series 2012;” “\$4,470,000 Unlimited Contract Tax Refunding Bonds, Series 2016;” “\$4,150,000 Unlimited Contract Tax Bonds, Series 2017;” “\$4,260,000 Unlimited Contract Tax Bonds, Series 2017;” and “\$6,000,000 Unlimited Contract Tax Bonds, Series 2019” (collectively, the “Outstanding Contract Bonds”). Of such outstanding Contract Bonds, \$8,726,296 (40.80%) represents the District’s pro rata share based on the 2019 Certified Assessed Valuation of the Service Area of \$511,954,955. See “THE MASTER DISTRICT – General” and “THE MASTER DISTRICT – Contract Tax Bonds.” To date, the District has not defaulted on any debt service or contract payments.

Authority for Issuance..... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, a bond election held within the District on May 3, 2003

approving the issuance of the bonds, an order adopted by the Board of Directors of the District on March 3, 2020 authorizing the issuance of the bonds, and a pricing certificate executed by the pricing officer as designated in the order (the order and the pricing certificate are collectively referred to herein as the “Bond Order”). See “THE BONDS – Authority for Issuance.”

Use of Proceeds ..... Proceeds from the sale of the Bonds will be used to (i) establish an escrow fund to currently refund \$1,560,000 of the District’s Unlimited Tax Refunding Bonds, Series 2013 (the “Refunded Bonds”), to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See “PLAN OF FINANCING.”

Bonds Authorized But Unissued..... At an election held within the District on May 3, 2003, voters within the District authorized a total of \$41,060,000 in unlimited tax new money bonds to acquire water, wastewater, and drainage facilities. The District has previously issued \$15,040,000 in new money unlimited tax bonds for such purposes and has \$26,020,000 remaining in authorized but unissued new money unlimited tax bonds for water, wastewater, and drainage facilities. The District is planning to issue \$6,000,000 of new money unlimited tax bonds for water, wastewater, and drainage facilities in the third quarter of 2020. See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued – Table 5” and “THE BONDS.” Additionally, at an election held within the District on February 7, 2004, voters within the District authorized a total of \$5,250,000 in unlimited tax new money bonds for the acquisition and construction of parks and recreational facilities, all of which remains authorized but unissued. “SEE FINANCIAL STATEMENT – Outstanding Bonds – Table 6” and “THE BONDS – Issuance of Additional Debt.” Additionally, at the May 3, 2003 election, the voters approved the issuance of unlimited tax refunding bonds in an amount not to exceed one and one-half times the amount of new money bonds issued for water, wastewater, and drainage facilities, assuming the issuance of the entire authorization, which equals \$61,590,000. To the extent the par amount of the Bonds exceeds the par amount of the Refunded Bonds, exclusive of underwriter’s discount, costs of issuance and capitalized interest, is counted against the refunding authorization. Se “FINANCIAL STATEMENT – Outstanding Bonds – Table 6” and “THE BONDS – Issuance of Additional Debt.” The District has previously issued one series of unlimited tax refunding bonds, which used \$190,000 refunding authorization, and the issuance of the Bonds is expected to use an additional \$138,865.72 of the District’s voted authorization of unlimited tax refunding bonds. After the issuance of the bonds, \$61,261,134.28 of voted authorization of refunding bonds will remain unissued.

Municipal Bond Ratings and Bond Insurance..... S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) are expected to assign a ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to the Bonds, as a result of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) at the time of delivery of the Bonds. Additionally, Moody’s has assigned an underlying rating of “Baa3” to the Bonds.

Qualified Tax-Exempt Obligations ..... 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, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2020 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P., Austin, Texas.

General Counsel ..... Armbrust & Brown PLLC, Austin, Texas.

Financial Advisor..... Public Finance Group LLC, Austin, Texas.

Underwriter’s Counsel ..... Orrick, Huntington & Sutcliffe LLP, Houston, Texas.

Verification Agent ..... Public Finance Partners, LLC, Minneapolis, Minnesota.

Paying Agent ..... UMB Bank, N.A., Austin, Texas  
and Escrow Agent

## **INVESTMENT CONSIDERATIONS**

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

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited)

2019 Certified Assessed Valuation	\$	208,889,446	(a)
2020 Preliminary Assessed Valuation	\$	244,792,318	(b)
Gross Debt Outstanding (after issuance of the Bonds)			
District Debt	\$	14,030,000	
Contract Debt		<u>8,762,296</u>	
		<u>\$ 22,792,296</u>	(c)
Ratio of Gross Debt to 2019 Certified Assessed Valuation <sup>(a)</sup>		10.91%	
Ratio of Gross Debt to 2020 Preliminary Assessed Valuation <sup>(b)</sup>		9.31%	
2019 Tax Rate			
Debt Service	\$	0.3655	
Maintenance		0.1345	
Contract		<u>0.3500</u>	
<b>Total 2019 Tax Rate</b>		<u>\$ 0.8500</u>	(d)
Debt Service Fund Balance (as of June 2, 2020)	\$	983,370	(e)
Percentage of current tax collections - Tax Years (2006-2019)		99.20%	(f)
Percentage of total tax collections - Tax Years (2006-2019)		100.00%	(f)
Average Annual Debt Service Requirement of the Remaining Outstanding Bonds ("Average Requirement") (2020-2042, inclusive)	\$	879,345	
Tax Rate required to pay Average Requirement based upon 2019 Certified Assessed Valuation <sup>(a)</sup> at 95% collections	\$	0.45	/\$100 AV
Tax Rate required to pay Average Requirement based upon 2020 Preliminary Assessed Valuation <sup>(b)</sup> at 95% collections	\$	0.38	/\$100 AV
Maximum Annual Debt Service Requirement of the Remaining Outstanding Bonds ("Maximum Requirement") (2034)	\$	951,094	
Tax Rate required to pay Maximum Requirement based upon 2019 Certified Assessed Valuation <sup>(a)</sup> at 95% collections	\$	0.48	/\$100 AV
Tax Rate required to pay Maximum Requirement based upon 2020 Preliminary Assessed Valuation <sup>(b)</sup> at 95% collections	\$	0.41	/\$100 AV
Number of connections as of April 30, 2020			
Single Family - Completed		1,178	
Single Family - Vacant		<u>7</u>	
<b>Total Number of Connections</b>		1,185	
Estimated Population as of April 30, 2020		4,123	(g)

*[The footnotes appear on the following page.]*

- (a) Assessed valuation of the District as of January 1, 2019, as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Preliminary assessed valuation of the District as of January 1, 2020, as provided by TCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed valuation unless it is certified by TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds, excludes the Refunded Bonds. The District is a party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase and maintain certain facilities to provide regional water, wastewater and drainage services to all Participants. The Master District has issued five (5) series of new money bonds and three (3) series of refunding bonds in the aggregate original principal amount of \$39,375,000 of which \$21,475,000 is currently outstanding. The contract debt amount reflects the District's pro rata share of 40.80% based on the 2019 Certified Assessed Valuation of \$511,954,955 of the Master District Service Area). See "THE MASTER DISTRICT – Contract Tax Bonds."
- (d) The District levied a 2019 total tax rate of \$0.8500 at its meeting in September 2019.
- (e) Unaudited as of June 2, 2020. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per completed and occupied single family home.

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**OFFICIAL STATEMENT  
relating to**

**\$1,650,000  
COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1  
(A Political Subdivision of the State of Texas Located in Travis County, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2020**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Cottonwood Creek Municipal Utility District No. 1 (the "District") of its \$1,650,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District on March 3, 2020, a pricing certificate executed by the pricing officer as designated in the order (the order and the pricing certificate are collectively referred to herein as the "Bond Order"), Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas (the "State"), including Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, and the bond election approved by the voters within the District on May 3, 2003.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Public Finance Group LLC, 900 South Capital of Texas Highway, Building IV, Suite 475, West Lake Hills, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District undertaking to provide certain information on a continuing basis.

**PLAN OF FINANCING**

**Purpose**

The Bonds are being issued to achieve a debt service savings in the years 2020 through 2033, inclusive, by refunding \$1,560,000 of the District's Unlimited Tax Refunding Bonds, Series 2013 (the "Refunded Bonds"). Proceeds from the sale of the Bonds will also be used to pay the costs of issuing the Bonds. See "DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3."

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## The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth below.

Year	Series 2013	Total
2022	\$ 105,000	\$ 105,000
2023	105,000	105,000
2024	110,000	110,000
2025	115,000	115,000
2026	120,000	120,000
2027	130,000	130,000
2028	130,000	130,000
2029	135,000	135,000 (1)
2030	145,000	145,000 (1)
2031	150,000	150,000 (1)
2032	155,000	155,000 (2)
2033	160,000	160,000 (2)
	<u>\$ 1,560,000</u>	<u>\$ 1,560,000</u>
Redemption Date: 7/30/2020		

(1) Term Bond maturing September 1, 2031.

(2) Term Bond maturing September 1, 2032.

## The Remaining Outstanding Bonds

The following bonds will remain outstanding after issuance of the Bonds (collectively, the “Remaining Outstanding Bonds”):

Year	Series 2013	Series 2016	Series 2017	Series 2018	Series 2019	The Bonds	Total
2020	95,000	25,000	135,000	5,000	40,000	-	300,000
2021	100,000	25,000	140,000	5,000	40,000	-	310,000
2022	-	25,000	145,000	100,000	50,000	110,000	430,000
2023	-	25,000	155,000	105,000	50,000	115,000	450,000
2024	-	25,000	160,000	110,000	55,000	120,000	470,000
2025	-	25,000	165,000	115,000	60,000	125,000	490,000
2026	-	25,000	170,000	120,000	65,000	130,000	510,000
2027	-	25,000	175,000	120,000	70,000	140,000	530,000
2028	-	50,000	160,000	125,000	120,000	140,000	595,000
2029	-	50,000	170,000	130,000	120,000	145,000	615,000
2030	-	50,000	170,000	135,000	120,000	155,000	630,000
2031	-	50,000	180,000	145,000	125,000	155,000	655,000
2032	-	50,000	190,000	150,000	125,000	155,000	670,000
2033	-	50,000	200,000	155,000	125,000	160,000	690,000
2034	-	225,000	205,000	160,000	130,000	-	720,000
2035	-	250,000	195,000	165,000	130,000	-	740,000
2036	-	275,000	185,000	175,000	135,000	-	770,000
2037	-	275,000	205,000	180,000	140,000	-	800,000
2038	-	275,000	225,000	185,000	140,000	-	825,000
2039	-	300,000	220,000	195,000	145,000	-	860,000
2040	-	300,000	240,000	205,000	145,000	-	890,000
2041	-	-	-	210,000	150,000	-	360,000
2042	-	-	-	-	720,000	-	720,000
	<u>\$ 195,000</u>	<u>\$ 2,400,000</u>	<u>\$ 3,790,000</u>	<u>\$ 2,995,000</u>	<u>\$ 3,000,000</u>	<u>\$ 1,650,000</u>	<u>\$ 14,030,000</u>

## The Escrow Agreement

The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the redemption date of such Refunded Bonds, as applicable, by the deposit of direct obligations of the United States, (the “Escrowed Securities”), and cash to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and UMB Bank, N.A., Austin, Texas (the “Escrow Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the underwriter listed on the cover page hereof (the “Underwriter”) the District will deposit with the Escrow Agent cash in an amount sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date.

In connection with the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Order authorizing the issuance of such Refunded Bonds and in accordance with State law and in reliance upon the Verification Report described below. As a result of such defeasance and in reliance upon the Verification Report of Public Finance Partners LLC, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement, and the District will have no further responsibility with respect to amounts available for the payment of such defeased bonds, including any insufficiencies.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$1,650,000.00
Net Original Issue Premium	<u>69,401.55</u>
Total Sources of Funds	\$1,719,401.55
Uses of Funds:	
Escrow Deposit	\$1,584,277.69
Costs of Issuance (includes municipal bond insurance premium)	114,035.18
Underwriter’s Discount	20,535.83
Deposit to Debt Service Fund (Rounding Amount)	<u>552.85</u>
Total Uses of Funds	\$1,719,401.55

## THE BONDS

### General Description

The Bonds will bear interest from the date of delivery, currently anticipated to be June 25, 2020 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on March 1, 2021 and each September 1 and March 1 thereafter until maturity and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in principal denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only utilizing DTC’s book-entry-only system (the “Book-Entry-Only System”). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is UMB Bank, N.A., Austin, Texas (the “Paying Agent”).

### Redemption

**Optional Redemption** . . . The Bonds maturing on and after September 1, 2029 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2027, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

**Mandatory Sinking Fund Redemption** . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2027, September 1, 2029, September 1, 2031, and September 1, 2033 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:



<b>\$270,000 Term Bond Maturing September 1, 2027</b>		
Mandatory		
Redemption	Principal	
<u>Date</u>	<u>Amount</u>	
2026	\$	130,000
2027*		140,000

<b>\$285,000 Term Bond Maturing September 1, 2029</b>		
Mandatory		
Redemption	Principal	
<u>Date</u>	<u>Amount</u>	
2028	\$	140,000
2029*		145,000

<b>\$310,000 Term Bond Maturing September 1, 2031</b>		
Mandatory		
Redemption	Principal	
<u>Date</u>	<u>Amount</u>	
2030	\$	155,000
2031*		155,000

<b>\$315,000 Term Bond Maturing September 1, 2033</b>		
Mandatory		
Redemption	Principal	
<u>Date</u>	<u>Amount</u>	
2032	\$	155,000
2033*		160,000

\* Stated Maturity.

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

**Notice of Redemption . . .** At least 30 calendar days prior to the date fixed for any optional redemption of Bonds or portions thereof prior to maturity a written notice of such optional redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such optional redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular maturities of the Bonds, or sinking fund installments in the case of Term Bonds, to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity or sinking fund installments in the case of the Term Bonds are to be redeemed; the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot or other customary random method in accordance with DTC Procedures.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed has been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

#### **Selection of Bonds for Redemption**

If less than all of the Bonds are called for redemption, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity, or sinking fund installment in the case of Term Bonds, is to be redeemed, the Paying Agent shall determine by lot or other customary random method the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of \$5,000 principal amount); provided, that during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity, or sinking fund installment in the case of Term Bonds, and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity, such interest rate and such sinking fund installment in the case of the Term Bonds shall be selected in accordance with the arrangements between the District and the securities depository.

## **DTC Redemption Provision**

The Paying Agent and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of optional redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent. Neither the District nor the Paying Agent will have any responsibility to the DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

## **Termination of Book-Entry-Only System**

The District is initially utilizing the Book-Entry-Only System of DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

**Payment . . .** Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds falls on a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

**Registration. . .** If the Book-Entry-Only System is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may be, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in denominations of \$5,000 or any integral multiple thereof.

**Limitation on Transfer of Bonds . . .** Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15<sup>th</sup>) calendar day of the month (whether or not a business day) preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

## **Replacement Bonds**

If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

## **Authority for Issuance**

At an election held within the District on May 3, 2003, the voters within the District approved the issuance of \$41,060,000 in new money unlimited tax bonds for water, wastewater, and drainage facilities. The District has previously issued \$15,040,000 in new money bonds for such purposes and has \$26,020,000 remaining in authorized but unissued new money unlimited tax bonds for water, wastewater, and drainage facilities. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued – Table 5" and "THE BONDS."

Additionally, at an election held in the District on May 3, 2003, the voters within the District approved the issuance of unlimited tax refunding bonds in an amount not to exceed one and one-half times the amount of unlimited tax new money bonds issued for water, wastewater, and drainage facilities, assuming issuance of the entire authorization, which equals \$61,590,000. To the extent the par amount of the Bonds exceeds the par amount of the Refunded Bonds, such amount is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of the Bonds, after deducting Underwriter's discount, is also counted against the District's refunding authorization. See "FINANCIAL STATEMENT – Outstanding Bonds – Table 6" and "THE BONDS – Issuance of Additional Debt." The District has previously issued one series of unlimited tax refunding bonds, which used \$190,000 refunding authorization, and the issuance of the Bonds is expected to use an additional \$138,865.72 of the District's voted authorization of unlimited tax refunding bonds. After the issuance of the bonds, \$61,261,134.28 of voted authorization of refunding bonds will remain unissued.

The Bonds are issued pursuant to the Bond Order adopted by the Board of Directors of the District on the date of the sale of the Bonds; Article XVI, Section 59 of the Texas Constitution, and the general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207 of the Texas Government Code, as amended; and a bond election held within the District on May 3, 2003.

### **Source of and Security for Payment**

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bond Order provides that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if the City of Manor, Texas (the "City" or "Manor") dissolves the District and assumes all debts and liabilities of the District.

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

### **Payment Record**

The District has previously issued five (5) installments of unlimited tax new money bonds and one (1) installment of unlimited tax refunding bonds. The District has never defaulted on the timely payment of principal and interest on its previously issued obligations entitled: "\$2,500,000 Unlimited Tax Bonds, Series 2006" (the "Series 2006 Bonds"); "\$2,395,000 Unlimited Tax Refunding Bonds, Series 2013" (the "Series 2013 Bonds"); "\$2,500,000 Unlimited Tax Bonds, Series 2016" (the "Series 2016 Bonds"); "\$4,040,000 Unlimited Tax Bonds, Series 2017" (the "Series 2017 Bonds"); "\$3,000,000 Unlimited Tax Bonds, Series 2018" (the "Series 2018 Bonds"); and "\$3,000,000 Unlimited Tax Bonds, Series 2019" (the "Series 2019 Bonds"). The proceeds of each installment of unlimited tax new money bonds included up to 24 months of capitalized interest.

### **Flow of Funds**

The Bond Order creates, or affirms creation, establishment and maintenance by the District of a Debt Service Fund and Escrow Fund for the Bonds.

The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest on the Bonds, if any, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

The Refunded Bonds and the interest due thereon will be paid on the first available optional redemption date from funds on deposit with the Escrow Agent and held in a separate escrow fund pursuant to the Escrow Agreement. See "PLAN OF FINANCING – The Refunded Bonds."

### **Defeasance of Outstanding Bonds**

**General** . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial

bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond is deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order and the District will have no further responsibility with respect to the amount available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein (and by the failure) of such paying agent (or other financial institution permitted by applicable law) to receive payments when due on the Defeased Securities.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds have become due and payable, the Paying Agent shall perform the services of Paying Agent for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (iii) non-callable 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iv) any other then-authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent consulting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

**Retention of Rights . . .** To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing the issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

**Investments . . .** Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

### **Paying Agent**

Principal of and semiannual interest on the Bonds will be paid by UMB Bank, N.A., having its office for payment in Austin, Texas, the initial paying agent and registrar for the Bonds. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the

Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar, will be sent by the District or the successor paying agent/registrar to each Registered Owner by first-class mail, postage prepaid.

### **Record Date**

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

### **Issuance of Additional Debt**

At an election held within the District on May 3, 2003, the voters within the District approved the issuance of \$41,060,000 in new money unlimited tax bonds for water, wastewater, and drainage facilities. The District has previously issued \$15,040,000 in new money bonds for such purposes and has \$26,020,000 remaining in authorized but unissued new money unlimited tax bonds for water, wastewater, and drainage facilities. The District anticipates issuing \$6,000,000 of new money unlimited tax bonds for water, wastewater, and drainage facilities in the third quarter of 2020. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued – Table 5" and "THE BONDS." Additionally, at an election held in the District on February 7, 2004, the voters within the District approved the issuance of \$5,250,000 in new money unlimited tax bonds for the acquisition and construction of parks and recreational facilities, all of which remain authorized but unissued. Additionally, at an election held in the District on May 3, 2003, the voters within the District approved the issuance of unlimited tax refunding bonds in an amount not to exceed one and one-half times the amount of unlimited tax new money bonds issued, assuming issuance of the entire authorization, which equals \$61,590,000. To the extent the par amount of the Bonds exceeds the par amount of the Refunded Bonds, such amount, is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of the Bonds, after deducting Underwriter's discount, is also counted against the District's refunding authorization. See "FINANCIAL STATEMENT – Outstanding Bonds – Table 6" and "THE BONDS – Issuance of Additional Debt." The District has previously issued one series of unlimited tax refunding bonds, which used \$190,000 refunding authorization, and the issuance of the Bonds is expected to use an additional \$138,865.72 of the District's voted authorization of unlimited tax refunding bonds. After the issuance of the bonds, \$61,261,13.28 of voted authorization of refunding bonds will remain unissued. Additionally, if approved by the voters within the District and the TCEQ, the District may establish, operate, and maintain a fire department independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Any additional bonds issued by the District may dilute the security for the Bonds.

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 of the Texas Commission on Environmental Quality ("TCEQ") pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

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

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes, or 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." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes, or other obligations issued by a district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions, and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations, or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations, or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

### **Specific Tax Covenants**

In the Bond Order, the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

## **Additional Covenants**

The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules, and regulations and open to inspection in the office of the District.

## **Remedies in Event of Default**

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. 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. The Bond Order does not provide for the appointment of a trustee to represent the interest of the registered owners of the Bonds (the "Bondholders") upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interest, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*", and together with *Wasson I*, "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be 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. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will not consolidate its water and wastewater system with any other district.

## **Annexation**

At the time of creation in 1985, the District contained approximately 183 acres of land. Since that time, the District has undertaken four annexations of land and two exclusions of land resulting in the current District acreage of approximately 417.70 acres.

A municipality may annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the district or its residents. Under House Bill 347 approved during the 86<sup>th</sup> Regular Legislative Session ("HB 347"), (a) a municipality may annex a

district with a population of less than 200 residents only if: (i) the municipality obtains the consent to annex the area through a petition signed by more than 50% of the registered voters of the district, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation; and (b) a municipality may annex a district with a population of 200 residents or more only if: (i) such annexation has been approved by a majority of those voting in an election for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area requests the annexation. As of April 30, 2020, the District had an estimated population of 4,123, thus triggering the voter approval and/or landowner consent requirements discussed in clause (b) above. The described election and petition process does not apply, however, during the term of a strategic partnership agreement between a municipality and a district specifying the procedures for annexation of all or a portion of the District.

If a municipal utility district is full purpose annexed, the municipality must assume the assets, functions, and obligations of the District, including outstanding bonds, and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

### **Alteration of Boundaries**

In certain circumstances, under Texas law the District may alter its boundaries to: (i) upon satisfying certain conditions, annex additional territory; and (ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied, including the District's simultaneous annexation of land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

### **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

### **Amendments to the Bond Order**

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of and interest on the Bonds, or (ii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

## **BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission ("SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC 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 securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants")

deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by 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 of line 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 SEC. 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 or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, interest and principal payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the 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 nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, interest and principal payments 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. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered to each Beneficial Owner.

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

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

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



## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; the City of Manor, Texas; or any entity other than the District, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See "THE BONDS - Source of and Security for Payment". The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. 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 property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. 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 Departments declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation, which among other things, imposed limitations on social gatherings of more than 10 people, ordered closure of in-person classroom attendance at school districts through the remainder of the 2019 – 2020 school year and maintained certain mandates regarding the minimization of in-person contact with people who are not in the same household. On April 17, 2020, the Governor issued Executive Order GA-16 generally continuing the same social-distancing restrictions and other obligations for Texans according to federal guidelines, but also provided the first steps to re-open businesses in Texas beginning May 1, 2020. On May 6, 2020, the Governor subsequently expanded the types of businesses that could reopen and provided for a staged reopening for those businesses starting May 8, 2020 and May 18, 2020. On May 18, 2020, the Governor issued Executive Order GA-23, effective until June 3, 2020, but subject to extension based on the status of COVID-19 in Texas and the recommendations of the Governor's Strike Force to Open Texas, the White House Coronavirus Task Force, and the CDC. Executive Order GA-23 provided a plan for further reopening of businesses through the month of May, and reopened school campuses for in-person classroom instruction beginning June 1, 2020. Additionally, Executive Order GA-23, among other things, maintained certain mandates regarding the minimization of in-person contact with people who are not in the same household except to provide or obtain services included on a list of services defined as "Covered Services." Executive Order GA-23 provides for a phased expansion of the scope of services that are considered Covered Services and thus the reopening of businesses in Texas, but such openings remain subject to future restrictions in the Governor's discretion based on factors such as an increase in the transmission of COVID-19 or in the amount of COVID-19-related hospitalizations or fatalities. Furthermore, the Governor has suspended various statutes of the Texas Open Meetings Act that requires government officials and members of the public to be physically present at a specified meeting location. This temporary suspension will allow for telephonic or videoconferencing meetings of governmental bodies that are accessible to the public in an effort to reduce in-person meetings that assemble larger groups of people. In addition, Travis County, within which the District is located, has issued "stay home" orders for most citizens except when engaged in specific essential business or government functions. Travis County's "stay home" order does not prohibit homebuilding activity or the construction of utility facilities within the District. Many of the federal, state, and local policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affect economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. These negative impacts may reduce or negatively affect property values or homebuilding activity within the District. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments – Development and Home Construction in the District." The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial conditions or its rating. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition. See

“FINANCIAL STATEMENT – Cash and Investment Balances – Table 7” and “ – Current Investment – Table 8” for the District’s current fund balances.

### **No Certainty of a Secondary Market**

Subject to prevailing market conditions, the Initial Purchaser intends, but is not obligated, to make a market in the Bonds. There is presently no secondary market for the Bonds and no assurance that a secondary market for the Bonds will develop or, if developed, will not be disrupted by events including, but not limited to, the current pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

### **Factors Affecting Taxable Values and Tax Payments**

*Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on construction activity, particularly short-term interest rates at which the Developer and homebuilder are able to obtain financing for development and construction costs. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

*Competition:* The demand for single-family homes in the District could be affected by competition from other residential developments, including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

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

*Developer under No Obligation to the District:* There is no commitment from, or obligation of, the Developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPER” and “TAX DATA - Principal Taxpayers – Table 12.”

*Impact on District Tax Rates:* Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2019 Certified Assessed Valuation of the District is \$208,889,446. After issuance of the Bonds, the Maximum Requirement will be \$951,094 (2034) and the Average Requirement will be \$879,345 (2020 through 2042, inclusive). Assuming (1) no increase or decrease from the 2019 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.48 and \$0.45 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. The 2020 Preliminary Assessed Valuation of the District is \$244,792,318. Based upon the assumptions above, tax rates of \$0.41 and \$0.38 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Debt Service Requirement and the Average Requirement, respectively. See “DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3” and “TAX DATA - Tax Adequacy for Debt Service.”

*Undeveloped Acreage . . .* All but approximately 85.64 acres of developable land within the District have been provided with water, wastewater and storm drainage and detention facilities as of May 18, 2020. In the opinion of the District’s engineers, the remaining authorized but unissued bonds should be sufficient to fund water, sanitary sewer, and drainage services to all areas now within the District. There is no assurance such undeveloped acreage will be developed. See “THE BONDS – Alteration of Boundaries” and “THE DISTRICT – Historical and Current Status of Development.”

*Development and Home Construction in the District . . .* As of May 18, 2020, approximately 127 developed lots within the District remained available for construction. Failure of the Developer and/or builder to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax

supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by the builder. See “Maximum Impact on District Tax Rates” above.

*Effects of Master Planned Community/Regulatory Constraints . . .* The Developer has no legal obligation to the District to carry out its current plans or any other plans of development within the District. Furthermore, there is no restriction on the Developer or other landowners selling their land. The District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developer. See “Factors Affecting Taxable Values and Tax Payments” above. Neither the Developer nor any subsidiaries, if any, are obligated to pay principal of and interest on the Bonds. Furthermore, the Developer has no binding commitment to the District to carry out any plans of development in the District, and the furnishing of information related to proposed development by a developer should not be interpreted as such a commitment. See “THE DISTRICT” and “THE DEVELOPER.”

### **Tax Collections and Foreclosure Remedies**

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District’s tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered owners are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, registered owners to enforce such remedies. The rights and remedies of the registered owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors’ rights generally.

### **Registered Owners’ Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether Section 49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages could be 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 or to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest 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. Although the registered owners could obtain a judgment against the District, such a judgment 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 in order 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 laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

### **Bond Insurance Risks**

The District has qualified for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds, and intends to use a portion of the proceeds of the Bonds to purchase the bond insurance. The risk factors relating to the purchase of bond insurance are listed below.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the provided of the Policy (the “Bond Insurer”) at such time and in such amounts as would have been due absent such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer (the “Bond Insurer”) without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer’s consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to

make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim-paying ability. The Bond 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 Bond Insurer and of the ratings on the Bonds insured by the Bond 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 RATINGS" AND "BOND INSURANCE" herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond 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 Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond 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 Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

### **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. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii) desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law a water, sewer, irrigation and drainage district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under State law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with State law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving 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 applicable, the concomitant delay and loss of remedies to the registered owners 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 a registered owner 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 owner's claim against a district.

### **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

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

## **Marketability**

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

## **Continuing Compliance with Certain Covenants**

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

## **Future Debt**

The District has the right to issue the remaining \$26,020,000 authorized but unissued new money unlimited tax bonds for water, wastewater and drainage facilities, \$5,250,000 of new money unlimited tax bonds for the construction and acquisition of park and recreational facilities and such additional bonds as may hereafter be approved by both the Board and voters of the District. The District anticipates issuing \$6,000,000 of new money unlimited tax bonds for water, wastewater, and drainage facilities in the third quarter of 2020. The District has previously issued one series of unlimited tax refunding bonds, which used \$190,000 refunding authorization, and the issuance of the Bonds is expected to use an additional \$138,865.72 of the District's voted authorization of unlimited tax refunding bonds. After the issuance of the Bonds, \$61,261,134.28 of voted authorization of refunding bonds will remain unissued. All of the remaining \$26,020,000 and \$5,250,000 of unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued from time to time for qualified purposes as determined by the Board, subject to the approval of the Attorney General of Texas and the TCEQ. See "THE DISTRICT – Comprehensive Development Agreement."

Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER – Utility Development Agreement." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to the limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regulating issuance and feasibility of bonds. In addition, future changes in health and environmental regulations could require the construction and financing of additional improvement without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt." See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued – Table 5."

**Contract Debt:** Pursuant to the Master District Contract, the District has agreed to pay a pro rata share of maintenance expenses and debt service on bonds issued from time to time by the Master District for Master District facilities. See "MASTER DISTRICT - Contract Tax Bonds." Such contract tax is legally unlimited as to rate or amount. The issuance of future contract tax bonds could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

## **No Requirement to Build on Developed Lots**

Currently, there is no requirement that builders owning developed lots within the District commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

## **Forward-Looking Statements**

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## Future and Proposed Legislation

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

## Environmental Regulation

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution;
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water 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 as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality Issues.* The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so-called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted the "8-hour" ozone standard of 80 parts per billion ("ppb") (the "1997 Ozone Standard") to protect public health and welfare. In 2008, the EPA lowered the ozone standard to 75 ppb (the "2008 Ozone Standard"). The Austin area, consisting of Travis, Hays, Travis, Bastrop, and Caldwell Counties (the "Austin Area"), was not designated "nonattainment" under the 2008 Ozone Standard.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the "2015 Ozone Standard"). On May 1, 2018, the EPA designated the Austin Area as "attainment" under the 2015 Ozone Standards, which became effective on August 3, 2018.

Should the Austin Area fail to achieve EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of nonattainment/conformity analysis, the status of the EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the near future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal became final on December 23, 2019.

On 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 waterfilled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective June 22, 2020, 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such 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. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

### **Drought Conditions**

Central Texas, like other areas of the State, has experienced drought conditions. Metro Water Systems, Inc. (fka Metro H2O, Ltd.), as the wholesale water supplier to the Master District, provides water to the Participants in amounts sufficient to service the residents of the District; however, as drought conditions occur within the District, water usage and rates could be impacted.

### **Storm Water**

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14"). Flood plain boundaries within the District may be redrawn based on the Atlas 14 study based on higher statistical rainfall amount, resulting in interim flood plain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the flood plain. See "THE SYSTEM – 100-Year Flood Plain."

## THE MASTER DISTRICT

### General

The District along with the other three Participants (consisting of Travis County MUD No. 2, Wilbarger Creek MUD No. 1, and Wilbarger Creek MUD No. 2) were created as conservation and reclamation districts for the purpose of providing water, wastewater and storm drainage facilities to the acreage within their respective boundaries. Pursuant to an election held within the boundaries of each Participant on May 3, 2003, each Participant approved the Master District Contract which designates Wilbarger Creek Municipal Utility District No. 2 as the “Master District” to serve as the regional provider of water, wastewater and storm drainage, including water quality facilities to serve development within the Participants. The Master District Contract also authorizes the Master District to issue contract tax bonds to acquire, construct and maintain the Master District Facilities to serve the Participants. The Master District owns and operates the Master District Facilities. See “THE SYSTEM.”

### Master District Service Area

The following chart more completely describes the Participants, including each Participant’s acreage and projected ultimate living unit equivalent (“LUEs”) based on current land use plans.

Participant	Acreage <sup>(a)</sup>	Existing LUEs <sup>(b)</sup>	Projected Ultimate LUEs <sup>(c)</sup>
Cottonwood Creek	417.70	1,227	2,216
Travis MUD No. 2	404.11	1,047	1,247
Wilbarger No. 1	300.40	742	1,555
Wilbarger No. 2	392.10	-	1,449
<b>Subtotal</b>	<b>1,514.31</b>	<b>3,016</b>	<b>6,467</b>
Park & Irrigation	-	-	100
<b>Total</b>	<b>1,514.31</b>	<b>3,016</b>	<b>6,567</b>

(a) Gross acreage includes all easements, rights-of-way and any other undevelopable acreage.

(b) As of March 31, 2020.

(c) Provided by the Developer and represents the existing land use plan. The District makes no representation that property within the District or within the Participants will be developed as shown above.

Metro Water Systems, Inc., a Texas corporation formerly known as Metro H2O, Ltd., (“Metro”), has entered into an “Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeastern Travis County, Texas” (as amended, the “Water Supply Contract”) with the four Participants to provide up to 6,010 LUEs of potable water supply capacity to the Participants. Additionally, the Participants and Metro originally entered into an “Amended and Restated Regional Sewer Disposal Capacity and Services Agreement for a Portion of Northeastern Travis County, Texas” (the “Wastewater Treatment Contract”) whereby Metro agreed to construct certain wastewater treatment facilities sufficient to serve up to 6,010 LUEs of wastewater from the Participants. In connection with its acquisition of the Wastewater Treatment Plant from Metro, the Master District acquired Metro’s interest in the Wastewater Treatment Contract. The currently estimated 6,567 LUEs projected to be developed within the Participants are in excess of the 6,010 LUEs currently included in the Participants’ reserved LUE capacity under the Water Supply Contract, with respect to the Water Supply Contract and with the Master District and the Wastewater Treatment Contract. The Participants expect to commence negotiations with Metro with respect to Wastewater Treatment Contract, regarding amending these contracts to increase the existing LUE capacity. See “THE SYSTEM – Water Supply and Distribution” and “THE SYSTEM – Wastewater Collection and Treatment.” Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Water Supply Contract and Wastewater Treatment Contract but has not been allocated any capacity.

### Contract Tax Bonds

The Master District Contract provides that each Participant shall pay a pro rata share of debt service on any Master District bonds, issued from time to time to acquire, construct, purchase and maintain Master District Facilities, based upon the Participant’s certified assessed valuation as a percentage of the total assessed valuation in all the Participants. The debt service requirements shall be calculated to include the charge and expenses of paying agents, registrars and trustees utilized in connection with the bonds, the principal, interest and redemption requirements of the bonds and all amounts required to establish and maintain funds required under the bond order or trust indenture relating to such bonds. Each Participant is obligated to pay its pro rata share of the annual debt service on such bonds from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount, revenues derived from the operation of each Participant’s internal water, wastewater and drainage systems or from any other legally available funds of each Participant. Each Participant’s pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a contract tax for the purpose of paying debt service on the bonds is the sole responsibility of each Participant.



The Master District has issued \$4,250,000 Unlimited Contract Tax Bonds, Series 2006; \$5,660,000 Unlimited Contract Tax Bonds, Series 2008; \$5,100,000 Unlimited Contract Tax Refunding Bonds, Series 2010; \$4,910,000 Unlimited Contract Tax Refunding Bonds, Series 2012; \$4,835,000 Unlimited Contract Tax Refunding Bonds, Series 2016; \$4,160,000 Unlimited Contract Tax Bonds, Series 2017; \$4,460,000 Unlimited Contract Tax Bonds, Series 2018; and \$6,000,000 Unlimited Contract Tax Bonds, Series 2019 (collectively, the “Master District Bonds”). The District’s pro rata share of such debt is \$8,762,296 (or 40.80%) based upon the District’s percentage of cumulative assessed value of the Participants (2019 Assessed Valuation of \$511,954,955) multiplied by the outstanding principal amount of Master District bonds issued (\$21,475,000).

The Master District expects to issue additional unlimited contract tax bonds from time to time, as it becomes financially feasible, to expand the Master District’s wastewater treatment plant and to construct additional water storage facilities. The Master District recently commissioned an updated water model in order to project more specifically when the additional water storage capacity will be required. According to Jones & Carter, Inc., and based on the Developer’s current development projections, an additional elevated water storage tank would need to be operational by 2021. This date is subject to change depending on the actual build out. The Master District also intends to finance future expansions of and for upgrades to the Wastewater Treatment Plant through the issuance of bonds, as well as any other Master District facilities which may be required in the future.

### **Operation and Maintenance Expenses**

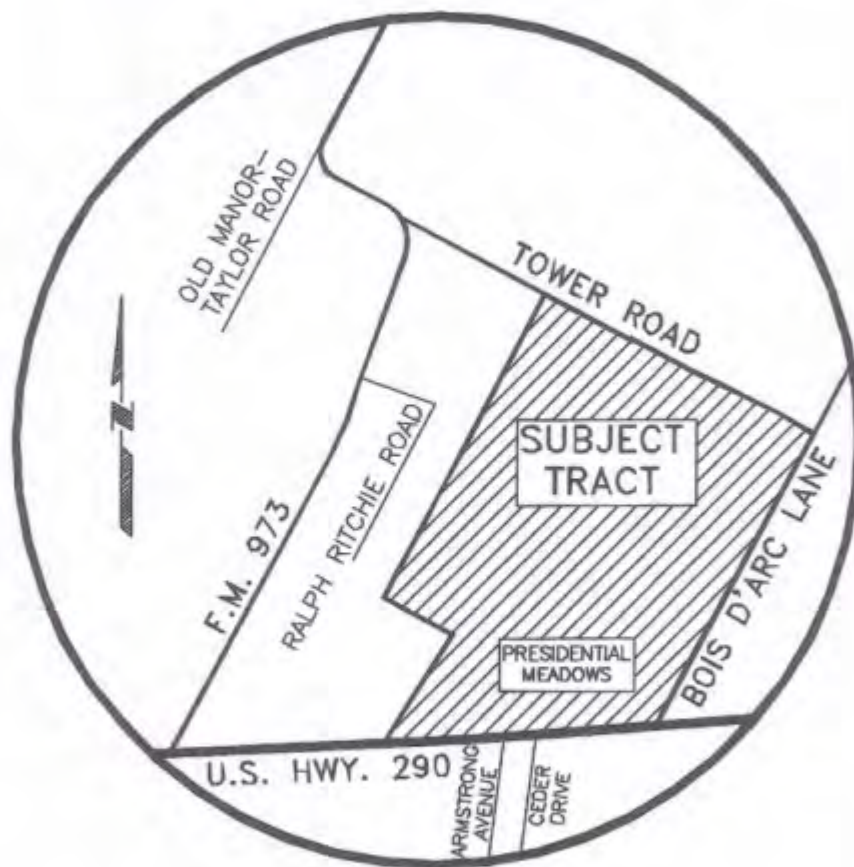
Pursuant to the Master District Contract, each Participant is further obligated to pay monthly charges to the Master District for water, sewer, and drainage, including water quality, services rendered pursuant to the Master District Contract (“Monthly Charges”). The Monthly Charges to be paid by each Participant to the Master District will be used to pay each Participant’s share of operation and maintenance expenses for Master District Facilities and to provide for an operation and maintenance reserve equal to five months of operation and maintenance expenses for such facilities. Each Participant’s share of operation and maintenance expenses and reserve requirements is calculated by the Master District based upon the following categories of costs: (i) direct costs, including LUE fee payments and other costs directly incurred by the Participant; (ii) volume-related costs, including actual fees related to water supply and wastewater collection and treatment; and (iii) all other costs, including administrative costs. The Master District bills the Participants monthly for such costs. Each Participant, in turn, charges retail water and wastewater rates to its customers based upon actual usage, the revenues from which are used to pay the Monthly Charges. The current Monthly Charges being charged to the District by the Master District average approximately \$59,201/month, according to the District’s bookkeeper Bott & Douthitt, P.L.L.C.

Pursuant to the Master District Contract, each Participant is obligated to establish and maintain rates, fees, and charges for services provided by each Participant’s water distribution system, wastewater collection system, and drainage system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay each Participant’s operation and maintenance expenses, and each Participant’s obligations pursuant to the Master District Contract, including each Participant’s pro rata share of the Master District’s debt service requirements, Monthly Charges, and any expenses related to the billing and collecting of the Monthly Charges by the Master District.

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LOCATION MAP

COTTONWOOD CREEK M.U.D. No. 1  
DISTRICT BOUNDARY



LOCATION MAP

NOT TO SCALE

## THE DISTRICT

### General

The District was created as Cottonwood Creek Water Control and Improvement District No. 1 by an order of the Travis County Commissioners Court on June 4, 1985 and confirmed pursuant to an election held within the District on May 7, 1988. The District was subsequently converted to a municipal utility district and its name changed to Cottonwood Creek Municipal Utility District No. 1. The District is a political subdivision of the State of Texas and its conversion to a municipal utility district was approved by order of the Texas Natural Resource Conservation Commission, a predecessor to the TCEQ on August 13, 2001. The District exists for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. If approved by the voters within the District and the TCEQ, the District may establish, operate and maintain a fire department independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Fire protection and emergency services are currently provided to the residents of the District by Travis County Emergency Services District No. 12. The District is additionally authorized pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code to issue bonds, subject to voter approval and the approval of TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. Pursuant to an election held within the District on February 7, 2004, the voters within the District approved the issuance of \$5,250,000 in bonds for park and recreational facilities.

### Management of the District

#### *Board of Directors*

The District is governed by the Board of Directors, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors' terms of office are four years, with elections held within the District in November in each even-numbered year. All of the directors reside or own property in the District.

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires November</u>
Kari Ann Johnson-Taylor	President	5 ½ years	2022
Jeff Nebrat	Vice President	9 ½ years	2022
Nicholas Whittaker	Secretary	8 ½ years	2020
Keith E. Young	Assistant Secretary	4 ½ years	2020
Gerald Aalbers	Assistant Secretary	½ year	2020

#### *Consultants*

#### **Tax Assessor/Collector**

The land and improvements in the District are being appraised by the Travis Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, currently serves the District in this capacity under contract for the portions of the District located in Travis County.

#### **Operator**

The District contracts with Crossroads Utility Services, LLC ("Crossroads") to serve as operator for the District. Crossroads serves in a similar capacity for approximately 60 other special districts in the Austin metropolitan area.

#### **Engineer**

The District's consulting engineer is Schroeder Engineering Company (the "Engineer"). Such firm serves as consulting engineer to 11 other special districts.

#### **Bookkeeper**

Bott & Douthitt, PLLC, certified public accountants, serves as bookkeeper to the District. Such firm serves as bookkeeper to approximately 90 other special districts.

### **Financial Advisor**

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

### **Bond Counsel**

The District has engaged McCall, Parkhurst & Horton L.L.P., Austin, Texas, as Bond Counsel to the District in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

### **General Counsel**

The District employs Armbrust & Brown PLLC ("A&B") as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

### **Location**

The District is located within the extraterritorial jurisdiction of the City and entirely within Travis County, Texas. The District is situated approximately eleven miles northeast of the central business district of Austin, lies north of the city limits of Manor and is on the north side of U.S. Highway 290.

The District as created contained a total of approximately 183 acres and currently encompasses approximately 417.70 acres as a result of two exclusions of property and four annexations of property.

### **Historical and Current Status of Development**

The District was originally created as Cottonwood Creek Water Control and Improvement District No. 1 by an order of the Travis County Commissioners Court on June 4, 1985 and confirmed pursuant to an election held within the District on May 7, 1988. The District was subsequently converted to a municipal utility district and its name changed to Cottonwood Creek Municipal Utility District No. 1.

The original developer of the District was SVWW Manor Limited Partnership, a Texas limited partnership ("SVWW"), which has approximately twenty (20) limited partners and one general partner, Manor Presidential GP, LLC, a Texas limited liability company, and owned by the key investors in SVWW including The TD Simmons Company, The Vedder Company, Meridian, LLC, and Jamesview Holding LLC.

Presidential Meadows Limited Partners, a Texas limited partnership ("Presidential"), an investment partnership which has the same general partner as SVWW, also owns land within the District. Presidential also has approximately twenty (20) limited partners and owned by the same key investors as SVWW.

In October 2002, SVWW acquired for cash approximately 143 acres within the District. Concurrently, Presidential purchased approximately 229 acres within the District with an approximate \$3 million seller note. The seller, IBC Partners, Ltd. ("IBC"), which originally provided the financing for this sale, retained approximately 45 acres of commercial frontage along US 290. Presidential refinanced the seller note with Citibank. According to Presidential, the Citibank loan is paid off.

From 2002 to 2006, SVWW developed approximately 105 acres within the District as Presidential Meadows Sections 1, 2, 3, and 4, encompassing 391 single-family lots. These lots were developed with two loans from JP Morgan Chase Bank and, according to SVWW, both of these loans have been paid in full. These lots were sold to another home building company (Continental Homes of Texas, L.P.). Beginning in September 2013, SVWW and Presidential have continued to sell single-family acreage to KB Home, with KB Home developing utility facilities to serve such acreage but with SVWW and Presidential retaining reimbursement rights to relevant bond proceeds.

On or about October 15, 2013, SVWW sold 17.88 acres to KB Home, which KB Home developed as Presidential Meadows Section 5, encompassing 95 single-family lots.

On or about January 13, 2015, Presidential sold 18.239 acres and SVWW sold 2.504 acres to KB Home, which KB Home developed as Presidential Meadows Section 8, encompassing 102 single-family lots.

On or about April 20, 2015, Presidential sold 20.303 acres and SVWW sold 0.041 acres to KB Home, which KB Home developed as Presidential Meadows Section 6, encompassing 89 single-family lots.

On or about June 30, 2016, Presidential sold 19.45 acres to KB Home, which KB Home developed as Presidential Meadows Section 10, encompassing 101 single-family lots.

On or about September 1, 2016, Presidential sold 29.028 acres to KB Home, which KB Home developed as Presidential Meadows Section 9, encompassing 130 single-family lots.

On or about April 21, 2017, Presidential sold 2.946 acres and 21.043 acres to KB Home and on or about June 13, 2017, Presidential sold 0.660 acres and 0.065 acres, which KB Home is developing as Presidential Meadows Sections 7 and 13, encompassing 136 single-family lots.

On or about May 4, 2018, Presidential sold 28.970 acres to KB Home, which KB Home is developing as Presidential Meadows Section 11, encompassing 133 single-family lots.

On or about October 19, 2018, Presidential sold 23.933 acres to KB Home, which KB Home is developing as Presidential Meadows Section 12, encompassing 115 single-family lots.

On or about May 17, 2019, Presidential sold 6.389 acres to KB Home, which KB Home is developing as Presidential Meadows Section 14, encompassing 42 single-family lots.

On or about May 17, 2019, Presidential sold 13.966 acres to KB Home, which KB Home is developing as Presidential Meadows Section 15, encompassing 85 single-family lots.

Currently, Presidential owns the remaining undeveloped residential land within the District originally acquired by SVWW and Presidential that has not been sold or otherwise dedicated by either SVWW or Presidential to Continental Homes of Texas, L.P., KB Home, or to governmental entities, including without limitation, the District and the Manor Independent School District, the homeowners association, or District directors. Presidential and KB Home currently are parties to an Agreement for Purchase and Sale of Real Property [Presidential Meadows – Sections 7 and 11 – 18] dated January 11, 2017 (the “Current Contract”) pursuant to which KB Home will acquire all remaining land contained within the District that is owned by Presidential subject to and in accordance with the terms and conditions specified in the Current Contract on or before August 31, 2022.

Development of the District commenced in October 2002. According to KB Home, as of May 18, 2020, approximately 332.06 acres (or 79.50% of the approximately 417.70 developable acres within the District) had been or were currently being developed with utility facilities as the single-family residential subdivisions of Presidential Meadows, Sections 1 through 13, encompassing a total of 1,292 developed single-family lots, including 1,116 completed homes, 48 homes under construction and 127 vacant developed single-family lots. As of May 18, 2020, Presidential Meadows, Section 14 (6.389 acres; platted as 42 single-family lots) and Presidential Meadows, Section 15 (13.966 acres; platted as 85 single-family lots) were under construction. The District also contains 2.50 acres of commercial acreage, an amenity center, and an elementary school. As of May 18, 2020, there are approximately 85.64 remaining developable acres, including 1.40 acres for a future storage tank, within the District.

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The following details the status of development within the District as of May 18 2020:

	Acreage	Platted Lots	Single-Family Homes		Vacant Developed Lots
			Completed	Under Construction	
A. Developed with Utility Facilities					
Presidential Meadows, Section 1	32.5000	93	93	-	-
Presidential Meadows, Section 2	21.6000	107	107	-	-
Presidential Meadows, Section 3	13.7000	83	83	-	-
Presidential Meadows, Section 4	37.3000	108	108	-	-
Presidential Meadows, Section 5	17.6000	95	83	-	12
Presidential Meadows, Section 6	20.2000	89	89	-	-
Presidential Meadows, Section 7	2.9000	14	14	-	-
Presidential Meadows, Section 8	20.7000	102	100	-	2
Presidential Meadows, Section 9	30.7000	129	123	2	4
Presidential Meadows, Section 10	19.1000	102	102	-	-
Presidential Meadows, Section 11	28.9700	134	51	8	74
Presidential Meadows, Section 12	23.9300	115	47	36	32
Presidential Meadows, Section 13	21.8000	121	116	2	3
Commercial	2.5000	-	-	-	-
Total Developed with Utilities	293.5000	1,292	1,116	48	127
B. Facilities Under Construction					
Presidential Meadows, Section 14	6.3890	42			
Presidential Meadows, Section 15	13.9660	85			
Total Facilities Under Construction	20.3550	127			
C. Remaining Developable Acreage					
Single-Family	40.0410				
Commercial/Retail	44.2000				
Total Remaining Developable Acreage	84.2410				
D. Other					
Amenity Center	4.7040				
School	13.5000				
Future Storage Tank Site	1.4000				
Total Other	19.6040				
Total District Acreage	417.7000				

#### Future Development

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors, including to a great extent, the general and other economic conditions which would affect any party's ability to sell lots and/or other property and of any homebuilder to sell completed homes as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's engineer estimates that the \$26,020,000 remaining principal amount of voted water, wastewater, and drainage bonds, which are authorized to be issued, should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acres within the District. See "THE BONDS – Issuance of Additional Debt." The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that future development will occur.

## **THE DEVELOPER**

### **Role of Developer**

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers, or third parties. Ordinarily, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection, and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

### **Description of the Developer**

The developer currently active within the District is KB Home Lone Star, Inc., a Texas corporation ("KB Home" or the "Developer"), which is a subsidiary of KB Home, Inc., a publicly traded Delaware corporation subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, that files reports, proxy statements, and other information with the SEC, are available online at [www.sec.gov](http://www.sec.gov). KB Home has purchased (or has under contract to purchase) certain single-family acreage from SVWW and Presidential; although KB Home will be developing utility facilities to serve such acreage, SVWW and Presidential have retained reimbursement rights to relevant bond proceeds. See "THE DISTRICT – Historical and Current Status of Development."

### **Homebuilder within the District**

KB Home is currently the active homebuilder within the District. According to KB Home, the homes range in price from approximately \$200,995 to \$240,995, with square footage ranging from approximately 1,234 to 2,495.

### **Utility Construction Agreements**

The District has entered into three Utility Construction Agreements: (i) a Utility Construction Agreement dated October 12, 2002 with IBC that was assigned by IBC to SVWW by assignment dated October 16, 2002 and covers approximately 143 acres acquired by SVWW; (ii) a Utility Construction Agreement dated October 12, 2002 with IBC that was assigned by IBC to Presidential by assignment dated October 16, 2002 and covers approximately 229 acres acquired by Presidential; and (iii) a Utility Construction Agreement dated October 10, 2007 between the District and IBC covering approximately 45 acres of commercial frontage along US 290. Such agreements govern the construction of water, wastewater, and drainage facilities on land within the District and the reimbursement of certain of the costs of such construction through the issuance of bonds by the District. The District has also entered into a Recreational Facility Reimbursement Agreement dated February 26, 2008 with Continental Homes of Texas, L.P. and SVWW covering the Presidential Meadows amenity center.

### **Agricultural Value Waiver**

SVWW, Presidential, and IBC have executed agreements, which are recorded in the Real Property Records of Travis County and are covenants running with the land, waiving the right to have land located within the District classified as agricultural, open space, or timberland for tax purposes. In addition, SVWW, Presidential, and IBC have waived the right to have their lots and houses (if any) classified as business inventory. Such agreements may not be modified without the approval of the TCEQ and are binding on purchasers of such land from each developer. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

## **THE SYSTEM**

### **Regulation**

The water, wastewater, and storm drainage facilities, the purchase, acquisition and construction of which have been permanently financed by the District with the proceeds of the bonds previously issued by the District, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ. According to the Engineer, the design of all such facilities has been approved by all governmental agencies which have jurisdiction over the District.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the EPA and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

## **Water Supply and Distribution**

Metro has entered into the Water Supply Contract with the four Participants to provide up to 6,010 LUEs of potable water supply capacity to the Participants. Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Water Supply Contract but has not been allocated any capacity. See “THE MASTER DISTRICT – Master District Service Area.” Pursuant to an Amended and Restated Assignment and Assumption of Capacity Rights and Obligations under Regional Water and Sewer Contracts; and Capacity Reservation Agreement” dated effective October 1, 2005 (the “Capacity Assignment”), the Participants assigned all of their rights and obligations with respect to water supply capacity under the Water Supply Contract to the Master District, which, in turn, reserved water supply capacity in favor of the Participants at full build out in the amounts set forth in the Water Supply Contract and agreed to allocate water capacity on an interim basis fairly and equitably among the Participants. The Participants have also executed the Master District Contract (see “THE MASTER DISTRICT”), pursuant to which the Master District is charged with the responsibility of constructing, financing, or acquiring facilities sufficient to distribute, rechlorinate, and store the potable water delivered by Metro to the Participants.

Under the Water Supply Contract, as affected by the Capacity Assignment, the Master District was originally contractually obligated to purchase water capacity from Metro at the time of each connection and on a quarterly basis through the payment of water LUE fees. However, pursuant to a “First Amendment to Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeast Travis County, Texas” dated August 9, 2011 (the “Water Supply Contract Amendment”), in consideration of the payment of \$250,000 to Metro, the obligation to make water LUE fee payments to Metro was terminated until the number of LUEs actually connected to the water system serving the Master District’s Service Area exceeds 2,610, at which time water LUE fees are required to be paid on a connection-by-connection basis. Connections to the system now exceed 2,610 LUEs, and the Participants are collecting a water LUE fee in the amount of \$1,900 per LUE. These fees are remitted to the Master District, which in turn pays Metro per the Water Supply Contract. By letter dated January 8, 2020, Metro notified the Advisory Committee established under the Water Supply Contract that Metro has recalculated the amount of the water LUE fee and intends to increase such fee to \$5,000 per LUE, which is the contractual maximum permitted by the Water Supply Contract Amendment. The Master District’s special legal counsel on rate matters has responded to Metro that the proposed increase does not appear to be authorized by the Water Supply Contract and has requested additional information. Further discussions with Metro on this matter are expected.

The Water Supply Contract, as amended, also obligates the Participants to pay Metro a volumetric wholesale water rate for water used by the Participants (the “Wholesale Water Rate”) as well as an annual rate payment (the “Annual Water Rate Payment”) by August 5<sup>th</sup> of each year. A portion of the Wholesale Water Rate and the Annual Water Rate Payment increase by three percent (3%) per year. The current Wholesale Water Rate is \$6.31 per 1,000 gallons of water delivered. The Annual Water Rate Payment for 2020 is \$169,620.49. Under the Wholesale Water Contract Amendment, Metro also has the authority to impose a surcharge for actual increases in the volumetric rate charged to Metro by its supplier as well as a surcharge to recover the cost of new capital assets necessary to serve the Participants.

Pursuant to the Water Supply Contract Amendment, Metro invoices the Master District for wholesale water service provided to the Participants using a take or pay minimum base quantity formula. Under this structure, the minimum base quantity of water for which the Participants will be charged for the year commencing March 1, 2020 is 189,060,335 gallons of water. The minimum base quantity for each year thereafter (March through February) will be prior year’s minimum base quantity plus 90% of the amount of water used by the Participants during the prior year in excess of the minimum base quantity for that year.

### *Metro Water Supply and Transmission Facilities*

The water supplied to the Participants by Metro is obtained by Metro under an “Amended and Restated Wholesale Potable Water Supply Agreement” dated April 11, 2011 (the “EPCOR Contract”) between Metro and EPCOR, 130 Project, Inc., a wholly-owned subsidiary of EPCOR Utilities, Inc. It is the District’s understanding that Metro has sufficient water capacity available under the EPCOR Contract to serve 6,010 connections within the Participants. The point of delivery for water delivered to Metro under the EPCOR Contract is the 500,000 gallon elevated storage tank owned by Metro adjacent to the Master District’s Service Area. The facilities necessary to deliver water under the EPCOR Contract have been constructed, and such water became available to Metro (and the Participants through Metro) on July 5, 2011. Under the terms of the Water Supply Contract Amendment, Metro is required to reserve capacity to and for the benefit of the Participants in the water supply available to Metro under the EPCOR Contract equal to the number of LUEs paid for by or on the behalf of the Participants. As of December 31, 2019, 2,889 LUEs have been paid for by or on behalf of the Participants to Metro. According to the Master District’s operator, as of January 28, 2020, there were 2,983 connections within the Master District Service Area.

In addition, SWWC Services, Inc., the Master District’s prior operator and an affiliate of Metro, previously advised the Master District that there is a physical water interconnect located between the Metro facilities and the City of Manor. In the past, Manor and Metro have utilized the interconnect; however, the Master District has been advised that the agreement providing for the interconnect has expired, and the District makes no representation that such agreement will be renewed.

### *City of Manor Emergency Water Interconnect*

The Master District and the City of Manor have entered into an “Interlocal Agreement Concerning Emergency Water Interconnect” dated June 6, 2014, which can provide a short term water supply to customers within the Participants in emergency situations.



### *Master District Distribution, Rechlorination and Storage Facilities*

The Master District has constructed a 24-inch water transmission main which distributes the water delivered by Metro approximately 3.3 miles from the Metro elevated storage tank, through the District and to a terminus within Cottonwood Creek MUD No. 1. Additionally, the Master District has constructed one chlorination facility outside the boundaries of the Master District at the beginning of the Master District's 24-inch water transmission main near the 500,000 gallon elevated storage tank owned by Metro. To date, the chlorination facility has not been needed for the water supply received pursuant to the EPCOR Contract.

It is anticipated that the Master District will be required to construct one or more water storage facilities as development increases demand for water supply within the Master District's service area. The Master District recently engaged Jones & Carter, Inc. to commence design of an 800,000 gallon elevated storage tank that is anticipated to come on-line in 2021.

### **Wastewater Collection and Treatment**

The Participants and Metro originally entered into the Wastewater Treatment Contract pursuant to which Metro agreed to construct certain wastewater treatment facilities sufficient to serve up to 6,010 LUEs of wastewater from the Participants. Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Wastewater Treatment Contract but has not been allocated capacity. Under the Wastewater Treatment Contract, Metro completed construction of wastewater facilities including a 500,000 gallons per day ("gpd") wastewater treatment plant and lift station (the "Wastewater Treatment Plant"). Based upon average daily flow of 250 gpd per LUE, the 500,000 gpd Wastewater Treatment Plant is sufficient to serve 2,631 LUEs, according to the Master District's Engineer. Pursuant to the Capacity Assignment, the Participants assigned all of their rights and obligations with respect to wastewater treatment capacity under the Wastewater Treatment Contract to the Master District, which, in turn, reserved wastewater treatment capacity in favor of the Participants at full build-out in the amounts set forth in the Wastewater Treatment Contract and agreed to allocate wastewater treatment capacity on an interim basis fairly and equitably among the Participants.

When Southwest Water Company, the parent of Metro, announced its intention to sell its wholesale operations in Texas, the Master District negotiated to purchase the Wastewater Treatment Plant from Metro pursuant to an Asset Purchase Agreement dated November 20, 2008. The closing of such transaction occurred on December 31, 2008, at which time Metro transferred ownership of the Wastewater Treatment Plant and its interest in the Wastewater Treatment Contract to the Master District. The Master District operates and maintains the Wastewater Treatment Plant as a Master District Facility and has included the costs of the operations in its budget for the fiscal year ending September 30, 2020. The cost of operation and maintenance of the Wastewater Treatment Plant will be invoiced to each of the Participants on a monthly basis, in accordance with the Master District Contract.

Shortly after the purchase of the Wastewater Treatment Plant, the Master District experienced increased maintenance and operation costs for the Wastewater Treatment Plant. In an effort to reduce these costs, the Master District engaged Jones & Carter, Inc. to assess the Wastewater Treatment Plant and its operation and maintenance procedures and recommend appropriate changes, repairs, and upgrades. The Master District has also entered into agreements with Microdyn MBR Systems, LLC, the manufacturer of the wastewater treatment technology at the Wastewater Treatment Plant, to service and replace the plant's membrane equipment and make certain upgrades to improve the performance and energy efficiency of the improvements, Jones & Carter, Inc. and Crossroads Utility Services LLC, the Master District's operator, have represented that operation of the Wastewater Treatment Plant has improved significantly. However, Jones & Carter, Inc. and Crossroads Utility Services LLC have recently reported concerns regarding the performance of the Wastewater Treatment Plant and the condition of the membrane equipment at the plant. Evaluations and conversations to resolve these problems are ongoing. The Master District intends to finance future upgrades to and expansions of the Wastewater Treatment Plant through the issuance of bonds. The Master District recently engaged Jones & Carter, Inc. to design the expansion of the Wastewater Treatment Plant to a capacity of 1.0 mgd. Based on an average daily flow of 250 gpd, the 1.0 mgd expansion will be sufficient to serve 4,000 LUEs.

### **Drainage System**

The storm drainage system that serves the District consists of curb and guttered streets and storm sewers that collect storm water runoff generally south and southwest to detention ponds and then to Wilbarger Creek, a tributary of the Colorado River.

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

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

According to the District's Engineer, no land within the District is located within the planned designated Flood Hazard Area as shown on the Federal Flood Insurance Administration Rate Map No. 48453C0485H.

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States ("Atlas 14") which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along

the I-10 corridor to Central Texas. In particular, the study shows that Central Texas is more likely to experience larger storms than previously thought. Based on this study, various governmental entities, including Travis County, are contemplating amendments to their regulations that will potentially increase the size of the 100-year flood plain which interim flood plain is based on the current 500-year flood plain, resulting in the interim flood plain regulations applying to a larger number of properties, and potentially increasing the size of detention ponds and drainage facilities required for future construction in all areas (not just in the flood plain). Flood plain boundaries within the District may be redrawn based on the Atlas 14 study based on the higher statistical rainfall amount, and could mean higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the flood plain.

#### **Water and Wastewater Operations Rate and Fee Schedule - Table 1**

The Board establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the monthly rates and fees for the District's water and sewer service which has been in effect since September 16, 2019. The Tap Connection Fees provided below are paid by homebuilders within the District and are not financial and operating data of the District and will not be updated by the District annually as part of the District's continuing disclosure undertaking.

##### **Monthly Billings:**

5/8"	\$41.00*
3/4"	41.50*
Monthly Water Commodity Charge	
0 – 15,000 gallons	\$6.45 per 1,000 gallons
15,001+ gallons	8.00 per 1,000 gallons
Monthly Wastewater Commodity Charge	\$7.50 per 1,000 gallons

##### **Tap Connection Fees:**

Water	\$600.00 per LUE
Wastewater	600.00 per LUE

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\* Single family residential meter includes solid waste/recycling services.

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## Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. Also see "Appendix A – Audited Financial Statements."

	Fiscal Year End				
	04/30/2020 <sup>(a)</sup>	9/30/2019 <sup>(b)</sup>	9/30/2018 <sup>(b)</sup>	9/30/2017 <sup>(b)</sup>	9/30/2016 <sup>(b)</sup>
<b>REVENUES</b>					
Property taxes, including penalties	\$ 283,813	\$ 388,987	\$ 379,114	\$ 275,661	\$ 244,824
Service Revenues, including penalties	768,590	1,154,752	971,212	842,381	682,722
Connection/Inspection fees	159,996	239,994	268,437	300,436	275,548
Interest	21,420	49,020	24,941	10,292	4,954
Developer Advance	-	-	-	-	60,671
Other	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 1,233,818</b>	<b>\$ 1,832,753</b>	<b>\$ 1,643,704</b>	<b>\$ 1,428,770</b>	<b>\$ 1,268,719</b>
<b>EXPENDITURES</b>					
Garbage Expenditures	\$ 124,421	\$ 174,958	\$ 142,308	\$ 107,604	\$ 81,614
Repairs/Maintenance	74,116	86,781	73,933	98,378	62,275
Operations/Management Fee	76,310	116,718	100,214	81,103	66,012
Inspection/Review Fee	34,151	58,938	63,306	66,795	68,635
Director Fees, including payroll taxes	4,198	5,975	5,652	6,298	6,298
Legal Fees	32,010	56,424	45,570	43,167	39,833
Engineering Fees	9,895	16,926	16,646	14,068	11,906
Audit Fees	13,750	13,150	12,850	12,500	12,000
Bookkeeping Fees	17,200	26,350	26,000	25,650	26,000
Financial Advisor/Other Consultant Fees	369	11,344	691	648	2,133
Tax Appraisal/Collection Fees	1,009	2,202	2,354	1,729	1,600
Insurance	520	5,204	5,200	4,148	4,480
Interfund Transfers <sup>(c)</sup>	558,080	564,940	728,688	477,267	567,825
Other	20,215	35,687	29,406	22,637	16,642
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 966,243</b>	<b>\$ 1,175,597</b>	<b>\$ 1,252,818</b>	<b>\$ 961,992</b>	<b>\$ 967,253</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 267,575</b>	<b>\$ 657,156</b>	<b>\$ 390,886</b>	<b>\$ 466,778</b>	<b>\$ 301,466</b>
<b>Beginning Fund Balance</b>	<b>\$ 2,768,106</b>	<b>\$ 2,110,950</b>	<b>\$ 1,720,064</b>	<b>\$ 1,253,286</b>	<b>\$ 951,820</b>
<b>Plus / (Less): Fund Transfer</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 3,035,681</b>	<b>\$ 2,768,106</b>	<b>\$ 2,110,950</b>	<b>\$ 1,720,064</b>	<b>\$ 1,253,286</b>

(a) Unaudited as of April 30, 2020. Partial year. Represents approximately seven (7) months of the District's current fiscal year.

(b) Audited.

(c) Interfund Transfers include the costs paid to the Master District for water supply and wastewater treatment costs.

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**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**

**Cottonwood Creek Municipal Utility District No. 1**

**\$1,650,000**

**Unlimited Tax Refunding Bonds, Series 2020**

**Dated Date: June 25, 2020**

**First Interest Payment Due: March 1, 2021**

Year Ending 31-Dec	Current Debt Service Requirement	Less Refunded Debt Service	The Bonds				Principal and Interest	Total Debt Service Requirements
			Principal (Due 9/01)	Interest (Due 3/01)	Interest (Due 9/01)	Total		
2020	\$ 772,161	\$ 29,530.63	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 742,631
2021	767,561	59,061.26	-	33,035	24,172	57,207	57,207	765,707
2022	872,011	164,061.26	110,000	24,172	24,172	48,344	158,344	866,294
2023	872,736	160,648.76	115,000	21,972	21,972	43,944	158,944	871,031
2024	877,718	162,105.00	120,000	19,672	19,672	39,344	159,344	874,956
2025	882,330	163,255.00	125,000	17,272	17,272	34,544	159,544	878,619
2026	887,559	164,115.00	130,000	14,772	14,772	29,544	159,544	882,988
2027	892,934	169,615.00	140,000	12,822	12,822	25,644	165,644	888,963
2028	942,184	164,740.00	140,000	10,722	10,722	21,444	161,444	938,888
2029	943,869	164,800.00	145,000	8,622	8,622	17,244	162,244	941,313
2030	939,281	169,400.00	155,000	6,447	6,447	12,894	167,894	937,775
2031	948,706	168,600.00	155,000	4,897	4,897	9,794	164,794	944,900
2032	947,044	167,600.00	155,000	3,347	3,347	6,694	161,694	941,138
2033	944,719	166,400.00	160,000	1,700	1,700	3,400	163,400	941,719
2034	951,094	-	-	-	-	-	-	951,094
2035	947,088	-	-	-	-	-	-	947,088
2036	952,013	-	-	-	-	-	-	952,013
2037	955,513	-	-	-	-	-	-	955,513
2038	952,556	-	-	-	-	-	-	952,556
2039	957,775	-	-	-	-	-	-	957,775
2040	956,413	-	-	-	-	-	-	956,413
2041	393,975	-	-	-	-	-	-	393,975
2042	741,600	-	-	-	-	-	-	741,600
	<u>\$ 20,298,838</u>	<u>\$ 2,073,931.91</u>	<u>\$ 1,650,000</u>	<u>\$ 179,451</u>	<u>\$ 170,588</u>	<u>\$ 350,038</u>	<u>\$ 2,000,038</u>	<u>\$ 20,224,944</u>

**FINANCIAL STATEMENT**  
**(Unaudited)**

**Assessed Value - Table 4**

2019 Certified Assessed Valuation	\$ 208,889,446 <sup>(a)</sup>
2020 Preliminary Assessed Valuation	\$ 244,792,318 <sup>(b)</sup>

Gross Debt Outstanding (after issuance of the Bonds)

District Debt	\$ 14,050,000	
Contract Debt	<u>8,762,296</u>	<u>\$ 22,812,296</u> <sup>(c)</sup>

Ratio of Gross Debt to 2019 Certified Assessed Valuation <sup>(a)</sup> 10.92%

Ratio of Gross Debt to 2020 Preliminary Assessed Valuation <sup>(b)</sup> 9.32%

2019 Tax Rate

Debt Service	\$ 0.3655	
Maintenance	0.1345	
Contract	<u>0.3500</u>	
<b>Total 2019 Tax Rate</b>	<u><u>\$ 0.8500</u></u>	<sup>(d)</sup>

Debt Service Fund Balance (as of June 2, 2020) \$ 983,370 <sup>(e)</sup>

Estimated Population as of April 30, 2020 ..... 4,123 <sup>(f)</sup>

Area of District: 417.70 acres

- (a) Assessed valuation of the District as of January 1, 2019, as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Preliminary assessed valuation of the District as of January 1, 2020, as provided by TCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed valuation unless certified by TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds, excludes the Refunded Bonds. The District is a party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase, and maintain certain facilities to provide regional water, wastewater and drainage services to all Participants. The Master District has issued five series of new money bonds and three series of refunding bonds in the aggregate original principal amount of \$39,375,000 of which \$21,475,000 is currently outstanding. The contract debt service amount reflects the District's pro rata share (40.80% based on the 2019 Certified Assessed Valuation of \$511,954,955 of the Master District Service Area). See "THE MASTER DISTRICT – Contract Tax Bonds."
- (d) The District's Board, at its meeting in September 2019, levied a total tax rate of \$0.8500. See "TAXING PROCEDURES."
- (e) Unaudited as of June 2, 2020. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) Based upon 3.5 residents per occupied single-family home.

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**Unlimited Tax Bonds Authorized but Unissued - Table 5**

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
5/3/2003	Water, Sanitary Sewer & Drainage	\$ 41,060,000	\$ 15,040,000	\$ 26,020,000
5/3/2003	Refunding	61,590,000 <sup>(b)</sup>	\$ 328,866 <sup>(a)</sup>	\$ 61,261,134
2/7/2004	Park and Recreational Facilities	5,250,000	\$ -	\$ 5,250,000
2/7/2004	Parks and Recreational Refunding	7,875,000 <sup>(c)</sup>	\$ -	\$ 7,875,000
<b>Total</b>		<b><u>\$ 115,775,000</u></b>	<b><u>\$ 15,368,866</u></b>	<b><u>\$ 100,406,134</u></b>

- (a) The calculation of the amount of remaining unissued refunding authorization is based on administrative guidance from the Attorney General. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds, after deducting Underwriter's discount, is also counted against the District's refunding authorization. The District has previously issued one (1) series of refunding bonds, which used \$190,000 in refunding authorization, and the issuance of the Bonds will use an additional \$138,865.72 of the District's voted authorization of refunding bonds. After the issuance of the bonds, \$61,261,134.28 of voted authorization of refunding bonds will remain unissued.
- (b) The proposition approved by the voters authorized the District to issue refunding bonds in an amount not to exceed one and one-half times the par amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued, which equals \$61,590,000 in water, wastewater, and drainage refunding bonds.
- (c) The proposition approved by the voters authorized the District to issue refunding bonds in an amount not to exceed one and one-half times the par amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued, which equals \$7,875,000 in parks and recreational refunding bonds.

**Outstanding Bonds - Table 6**

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds <sup>(a)</sup>
<b>A. New Money Bonds</b>				
08/01/06	Water, Sanitary Sewer & Drainage	2006	\$ 2,500,000	\$ -
04/12/16	Water, Sanitary Sewer & Drainage	2016	2,500,000	2,400,000
11/14/17	Water, Sanitary Sewer & Drainage	2017	4,040,000	3,790,000
10/09/18	Water, Sanitary Sewer & Drainage	2018	3,000,000	2,995,000
08/13/19	Water, Sanitary Sewer & Drainage	2019	3,000,000	3,000,000
	Subtotal		<b><u>\$ 15,040,000</u></b>	<b><u>\$ 12,185,000</u></b>
<b>B. Refunding Bonds</b>				
2/1/2013	Refunding	2013	\$ 2,395,000	\$ 195,000
6/25/2020	Refunding	2020	\$ 1,650,000	\$ 1,650,000 <sup>(b)</sup>
	Subtotal		<b><u>\$ 2,395,000</u></b>	<b><u>\$ 1,845,000</u></b>
	Total		<b><u>\$ 17,435,000</u></b>	<b><u>\$ 14,030,000</u></b>

(a) Includes the Bonds and excludes the Refunded Bonds.

(b) The Bonds.

**Cash and Investment Balances - Table 7 <sup>(a)</sup>**

General Fund	\$ 3,074,277
Debt Service Fund	983,370 <sup>(b)</sup>
Capital Projects Fund	618,811

(a) Unaudited as of June 2, 2020.

(b) Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

**Investment Authority and Investment Practices of the District**

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) 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; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund, groups methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

#### Current Investments - Table 8

The District, as of June 2, 2020, was invested in TexPool. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investments except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since securities are not issued to evidence the investment, but rather the District owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

	Investment Value as of June 2, 2020
Cash	\$ 75,653
TexPool	4,600,806
<b>Total Investments</b>	<b>\$ 4,676,458</b>

#### 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 several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. 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 information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District may be authorized by State law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for debt service and the tax burden for operation, maintenance, and/or general purposes is not included in these figures.

*[Chart appears on the following page]*



Taxing Body	Total Tax Supported Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Travis County	\$ 992,335,000	4/30/2020	0.080%	\$ 793,868
Austin Community College	404,420,000	4/30/2020	0.080%	323,536
Travis County ESD No. 12	-	4/30/2020	0.000%	-
Manor Independent School District	472,354,999	4/30/2020	2.730%	12,895,291
Travis County Healthcare District	7,285,000	4/30/2020	0.080%	5,828
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 14,018,523</b>
The District <sup>(a)</sup>	\$ 22,792,296	6/25/2020	100.00%	\$ 22,792,296
<b>TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 36,810,819</b>
<b>Ratio of Estimated and Overlapping Debt to 2019 Certified Assessed Valuation</b>				<b>17.62%</b>
<b>Ratio of Estimated and Overlapping Debt to 2020 Preliminary Assessed Valuation</b>				<b>15.04%</b>

(a) Includes the Bonds; excludes the Refunded Bonds.

#### Overlapping Taxes for 2019

Overlapping Entity	2019 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Travis County	Travis County
Travis County	\$0.369293	\$ 774
Travis County Healthcare District	0.104900	220
Travis County ESD No. 12	0.100000	210
Manor Independent School District	1.470000	3,081
Austin Community College	0.105573	221
The District	0.850000	1,782
<b>Total</b>	<b>\$2.999766</b>	<b>\$ 6,288</b>

(a) Based upon 2019 average single-family home value of \$209,609, as provided by TCAD.

#### TAX DATA

##### Classification of Assessed Valuation - Table 9

Type Property	2019 <sup>(a)</sup>		2018 <sup>(a)</sup>		2017 <sup>(a)</sup>	
	Amount	%	Amount	%	Amount	%
Single Family Residential	\$ 195,783,515	93.53%	\$ 161,387,042	114.36%	\$ 111,631,593	94.59%
Vacant Platted Lots/Tracts	6,811,337	3.25%	3,300,990	2.78%	3,156,473	2.67%
Qualified Open Space Land	-	0.00%	-	0.00%	-	0.00%
Rural Land, Non-Qualified	3,837,680	1.83%	4,895,740	0.81%	5,375,328	4.55%
Commercial Real Property	2,441,871	1.17%	2,375,763	7.79%	1,124,479	0.95%
Commercial Personal Property	479,270	0.23%	407,545	0.77%	356,355	0.30%
Residential Inventory	7,158,506	3.42%	7,412,753	1.25%	4,693,098	1.53%
Totally Exempt Property	17,181,276	8.21%	16,020,115	0.27%	15,176,805	0.36%
Adjustments & Exemptions	(24,370,329)	-11.64%	(26,343,729)	-4.62%	(23,501,715)	-6.23%
<b>Total</b>	<b>\$209,323,126</b>	<b>100.00%</b>	<b>\$169,456,219</b>	<b>123.41%</b>	<b>\$118,012,416</b>	<b>98.73%</b>

(a) Assessed Valuation reflects the adjusted value at September 30<sup>th</sup> of each respective year as included in the audited financial statement.

## Tax Collections - Table 10

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District's Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation (a)	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2002	275,656	0.9500	2,619	2,619	100.00%	2,619	100.00%	9/30/2003 <sup>(b)</sup>
2003	4,392,774	0.9500	41,731	41,731	100.00%	41,731	100.00%	9/30/2004 <sup>(b)</sup>
2004	4,396,914	0.9500	41,771	41,771	100.00%	41,771	100.00%	9/30/2005 <sup>(b)</sup>
2005	10,068,778	0.9500	95,653	93,362	97.60%	95,392	99.73%	9/30/2006 <sup>(b)</sup>
2006	25,885,074	0.8968	232,137	231,889	99.89%	232,297	100.07%	9/30/2007 <sup>(b)</sup>
2007	43,413,730	0.8968	389,333	384,032	98.64%	389,333	100.00%	9/30/2008 <sup>(b)</sup>
2008	53,068,848	0.8968	475,921	474,874	99.78%	475,247	99.86%	9/30/2009 <sup>(b)</sup>
2009	57,745,415	0.8968	517,861	493,629	95.32%	516,019	99.64%	9/30/2010 <sup>(b)</sup>
2010	53,881,905	0.9500	511,879	507,015	99.05%	509,288	99.49%	9/30/2011 <sup>(b)</sup>
2011	49,378,416	0.9700	478,971	477,387	99.67%	477,572	99.71%	9/30/2012 <sup>(b)</sup>
2012	41,610,277	1.1000	457,712	454,881	99.38%	456,285	99.69%	9/30/2013 <sup>(b)</sup>
2013	44,481,462	1.0900	484,902	483,932	99.80%	483,932	99.80%	9/30/2014 <sup>(b)</sup>
2014	47,808,660	0.9500	454,135	453,227	99.80%	453,227	99.80%	9/30/2015 <sup>(b)</sup>
2015	62,531,798	0.9170	573,462	572,315	99.80%	572,315	99.80%	9/30/2016 <sup>(b)</sup>
2016	84,554,365	0.9170	775,364	771,487	99.50%	771,487	99.50%	9/30/2017 <sup>(b)</sup>
2017	118,143,226	0.8500	1,003,335	996,801	99.35%	997,315	99.40%	9/30/2018 <sup>(b)</sup>
2018	169,493,317	0.8500	1,440,378	1,430,295	99.30%	1,430,295	99.30%	9/30/2019 <sup>(b)</sup>
2019	208,889,446	0.8500	1,806,262	1,776,686	98.36%	1,776,686	98.36%	9/30/2020 <sup>(c)</sup>

(a) Assessed Valuation reflects the adjusted value at September 30<sup>th</sup> of each respective year as included in the audited financial statement.

(b) Audited.

(c) Reflects collections as of May 1, 2020. Taxes were due with no penalty by January 31, 2020.

## District Tax Rates - Table 11

	Tax Rate per \$100 Assessed Valuation				
	2019	2018	2017	2016	2015
Debt Service	\$ 0.3655	\$ 0.2698	\$ 0.1788	\$ 0.2425	\$ 0.1746
Maintenance	0.1345	0.2302	0.3212	0.3245	0.3924
Contract	0.3500	0.3500	0.3500	0.3500	0.3500
<b>Total</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.9170</b>	<b>\$ 0.9170</b>

### Debt Service Tax

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount. As shown above under "District Tax Rates," the District levied a 2019 debt service tax rate of \$0.3655/\$100 assessed valuation.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing, or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held on May 3, 2003, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied 2019 maintenance and operations tax of \$0.1345/\$100 assessed valuation.

## Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2019, 2018 and 2017 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

Name	Type of Property	2019 <sup>(a)</sup>	2018 <sup>(a)</sup>	2017 <sup>(a)</sup>
KB Home Lone Star Inc. <sup>(b)</sup>	Land & Improvements	\$ 8,098,605	\$ 6,249,291	\$ 3,792,514
IBC Partners Ltd.	Land & Improvements	3,418,010	3,418,010	3,429,286
Presidential Meadows LP	Land & Improvements	1,650,449	2,708,509	4,800,722
Lion Capital LLC	Land & Improvements	1,299,490	1,251,339	499,511
GFAA Partners, Inc.	Land & Improvements	797,316	779,359	779,414
Individual Homeowner	Land & Improvements	564,401	(c)	(c)
Individual Homeowner	Land & Improvements	430,914	417,925	397,732
Presidential Glen Ltd.	Land & Improvements	425,656	425,656	425,656
American Homes 4 Rent	Land & Improvements	357,935	358,472	318,738
Individual Homeowner	Land & Improvements	327,476	(c)	(c)
Individual Homeowner	Land & Improvements	(c)	304,704	(c)
Individual Homeowner	Land & Improvements	(c)	304,163	(c)
Dinsmore Living Trust	Land & Improvements	(c)	(c)	339,052
Individual Homeowner	Land & Improvements	(c)	(c)	270,195
<b>Total</b>		<u>\$ 17,370,252</u>	<u>\$ 16,217,428</u>	<u>\$ 15,052,820</u>
Percent of Assessed Valuation		8.31%	9.57%	12.76%

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statements.

(b) The Developer.

(c) Not a principal taxpayer for respective year.

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2019 Certified Assessed Valuation, 2020 Preliminary Assessed Valuation, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

Average Requirement on the Remaining Outstanding Bonds (2020 through 2042) .....	\$879,345
\$0.45 Tax Rate on 2019 Certified Assessed Valuation of \$208,889,446 @ 95% collections produces .....	\$893,002
\$0.38 Tax Rate on 2020 Preliminary Assessed Valuation of \$244,792,318 @ 95% collections produces .....	\$883,700
Maximum Requirement on the Remaining Outstanding Bonds (2034) .....	\$951,094
\$0.48 Tax Rate on 2019 Certified Assessed Valuation of \$208,889,446 @ 95% collections produces .....	\$952,536
\$0.41 Tax Rate on 2020 Preliminary Assessed Valuation of \$244,792,318 @ 95% collections produces .....	\$953,466

## Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/20 .....	\$742,631 <sup>a)</sup>
Audited Debt Service Fund Balance as of 9/30/2019 .....	\$ 444,415 <sup>(b)</sup>
2019 Tax Levy @ 95% collections produces.....	<u>\$ 725,316<sup>(c)</sup></u>
Total Available for Debt Service .....	<u>\$1,169,731</u>
Projected Debt Service Fund Balance 9/30/20 .....	\$427,100

(a) Interest payments on the Bonds begin March 1, 2021.

(b) Audited debt service fund balance of as of September 30, 2019; represents debt service fund balance after all 2019 debt service requirements have been paid.

(c) The District levied a 2019 debt service tax rate of \$0.3655 at its September 2019 meeting.

## TAXING PROCEDURES

### Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under State law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA – Maintenance Tax."

### Property Tax Code and County Wide Appraisal District

Title I of the Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis Central Appraisal District (the "TCAD") has the responsibility for appraising property for all taxing units within Travis County. Such appraisal values are subject to review and change by the Travis Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal rolls as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

### Property Subject to Taxation by the District

**General:** Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the appraisal district to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth development, or fraternal organizations; designated historical sites; travel trailers; and most individually owned automobiles. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. 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 on the same or subsequently qualified homestead of the total appraised value of the same property to which the disabled veteran's exemption applied. The surviving spouse of a member of the armed services who was killed in action is entitled to an exemption from taxation of the total appraised value of the surviving spouse's residence homestead where certain conditions are met and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, 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. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. Furthermore, the surviving spouse of a person 65 or older is entitled to an exemption for the same property in an amount equal to that which the deceased spouse was qualified, subject to certain conditions. The District's tax assessor/collectors are authorized by statute to disregard such exemptions for the elderly and disabled if

granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but it must be adopted by July 1. Effective November 12, 2001, the District adopted a general homestead exemption.

**Tax Abatement:** Travis County and the District may enter into tax abatement agreements with owners of real property within such tax abatement zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the 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. To date, the District has not executed any abatement agreements.

**Freeport Goods and Goods-in-Transit Exemption:** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft, and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment, and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. District took no action prior to April 1, 1990 to tax freeport property but has acted to tax goods-in-transit.

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

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

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Developers wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years.

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

### **District and Taxpayer Remedies**

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

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

## Levy and Collection of Taxes

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

## Rollback of Operation and Maintenance Tax Rate

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

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

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

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

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

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

### **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2019". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - General - Tax Collections and Foreclosure Remedies."

### **Effect of FIRREA on Tax Collections**

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

## **LEGAL MATTERS**

The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the 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 governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX B - Form of Bond Counsel Opinion." Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "SALE AND DISTRIBUTION OF BONDS – Securities Laws," "PLAN OF FINANCING – Escrow Agreement," "THE BONDS" (except for the subcaptions "DTC Redemption Provision," "Payment Record" and "Remedies in Event of Default"), "LEGAL MATTERS" (except for the last sentence of the first paragraph hereof and the subcaption "No-Litigation Certificate"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein, is correct as to matters of law, and, with respect to the Bonds, such information conforms to the provisions of the Bond Order. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

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

## **No-Litigation Certificate**

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

## **VERIFICATION OF ESCROW SUFFICIENCY**

Public Finance Partners, LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

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

## **TAX MATTERS**

### **Opinion**

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

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

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

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

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

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

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 accrual 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 would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.



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

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

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

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

### **Collateral Federal Income Tax Consequences**

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

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

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

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

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

### **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.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406

of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and, in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **Qualified Tax-Exempt Obligations for Financial Institutions**

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 obligation, 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 has covenanted 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 \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has 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. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A, if such audited financial statements as provided in Appendix A are then available. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available within twelve months after any such fiscal year end, the District will file unaudited financial statements within such twelve-month period and file audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Notice of Certain Events**

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 the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing

repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person 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; (15) incurrence of a financial obligation (as defined by the Rule which includes debt, debt-like, and debt-related obligations) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, 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 law.

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

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of certain 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 owners may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter or purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **Compliance with Prior Undertakings**

During the past five years, the District has complied in all material respects with its continuing disclosure undertakings in accordance with SEC Rule 15c2-12.

#### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2014 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## UNDERWRITING

The Underwriter of the Bonds has agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the District at an underwriting discount of \$20,535.83 from the initial public offering prices therefore set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public offering prices may be charged from time to time by the Underwriter.

## OFFICIAL STATEMENT

### Preparation

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT". The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in the preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" and "THE SYSTEM" – Schroeder Engineering Company ("District Engineer"); "THE DEVELOPER" – KB Home (the "Developer"); "FINANCIAL STATEMENT" – Travis Central Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" – Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM – Water and Wastewater Operations – Rate and Fee Schedule – Table 1" – Records of the District; "THE DISTRICT - Management" – District Directors; "PROJECTED DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3" – Financial Advisor; "THE BONDS (except "Payment Record"), "LEGAL MATTERS", "TAXING PROCEDURES," "CONTINUING DISCLOSURE OF INFORMATION" (except in the subheading "Compliance with Prior Undertakings"); "TAX MATTERS" - McCall, Parkhurst & Horton L.L.P.

### Consultants

In approving this Official Statement, the District has relied upon the following consultants:

*The Engineer:* The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by Schroeder Engineering Company, and has been included in reliance upon the authority of said firm in the field of civil engineering.

*The Auditor:* The District's financial statements for the fiscal year ended September 30, 2019 were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "Appendix A" for a copy of the District's Audited Financial Statements as of September 30, 2019.

*Appraisal District:* The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Travis Central Appraisal District, in reliance upon its authority in the field of appraising and tax assessing.

*Tax Assessor/Collector:* The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Mr. Bruce Elfant in reliance upon his authority in the field of tax assessing and collecting.

### Updating the Official Statement during Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Underwriter of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Underwriter a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Underwriter, unless the Underwriter elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale under the heading "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Underwriter (the "end of the underwriting period" within the meaning of the Rule), unless the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Underwriter agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### **Certification as to Official Statement**

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the District delivers the Bonds to the Underwriter at closing, unless extended by the Underwriter. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Underwriter.

### **Annual Audits**

Under State Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year once the District has bonds outstanding. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Cottonwood Creek Municipal Utility District No. 1, as of the date shown on the first page hereof.

/s/Kari Ann Johnson-Taylor  
President, Board of Directors  
Cottonwood Creek Municipal Utility District No. 1

/s/Nicholas Whittaker  
Secretary, Board of Directors  
Cottonwood Creek Municipal Utility District No. 1

## PHOTOGRAPHS

The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See “THE DISTRICT.”

















**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS**

The information contained in this appendix has been excerpted from the audited financial statement of Cottonwood Creek Municipal Utility District No. 1 for the fiscal year ended September 30, 2019. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
YEAR ENDED SEPTEMBER 30, 2019**

**FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT**





**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1**

**FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2019**





# COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1

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# **ANNUAL FILING AFFIDAVIT**



# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF TRAVIS

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

**COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1**  
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **4th day of February, 2020**, its annual audit report for the fiscal period ended **September 30, 2019** and that copies of the annual audit report have been filed in the District's office, located at:

100 Congress Ave., Suite 1300  
Austin, Texas 78701  
(Address of District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: \_\_\_\_\_, \_\_\_\_\_ By: \_\_\_\_\_  
(Signature of District Representative)

\_\_\_\_\_  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

My Commission Expires On: \_\_\_\_\_,  
Notary Public in the State of Texas

Form TCEQ-0723 (Revised 07/2012)



# **INDEPENDENT AUDITOR'S REPORT**





# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

9600 Great Hills Trail  
Suite 150W  
Austin, Texas 78759  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

Board of Directors  
Cottonwood Creek Municipal Utility District No. 1  
Travis County, Texas

## Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Cottonwood Creek Municipal Utility District No. 1 (the "District"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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



## Opinions

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

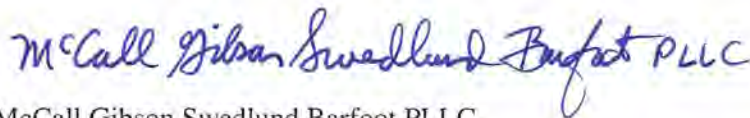
## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Austin, Texas

February 4, 2020



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Cottonwood Creek Municipal Utility District No. 1 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2019. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the unassigned fund balance was \$2,768,106, an increase of \$657,156 from the previous fiscal year. General fund revenues increased from \$1,643,704 in the previous fiscal year to \$1,832,753 in the current fiscal year due to an increase in service account and property tax revenues. Operating transfers decreased from \$728,688 in the previous year to \$564,940 in the current fiscal year.
- *Special Revenue Fund:* Fund balance remained at \$-0- in the current fiscal year. The District incurred \$1,158,016 in contract charges to Wilbarger Creek Municipal Utility District No. 2 (the "Master District") during the current fiscal year. Special Revenue Fund revenues increased from \$414,335 in the previous fiscal year to \$597,314 due to an increase in the District's assessed valuation.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$201,481 in the previous fiscal year to \$444,415 in the current fiscal year. Debt service fund revenues increased from \$218,574 in the previous fiscal year to \$468,603 in the current fiscal year. The District paid \$250,000 of principal and \$375,032 of interest on outstanding bonded debt.
- *Capital Projects Fund:* Fund balance restricted for authorized construction increased to \$613,746 during the current fiscal year. The District issued \$3,000,000 of Series 2018 and \$3,000,000 of Series 2019 unlimited tax bonds and used the proceeds to purchase \$4,046,176 of infrastructure and pay \$632,476 of bond related expenditures.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$436,670. Net position decreased from \$44,153 to a deficit balance of \$392,517.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**OVERVIEW OF THE DISTRICT**

The District, a political subdivision of the State of Texas, was created by an order of the Travis County Commissioner’s Court dated June 4, 1985, as a water control and improvement district. Subsequently, by an order of the Texas Natural Resource Conservation Commission (presently known as the Texas Commission on Environmental Quality), dated August 13, 2001, the District was converted to a municipal utility district. Creation of the District was confirmed at an election held within the District on May 7, 1988. The District was created to provide water, wastewater, and storm drainage facilities to serve customers located within its boundaries and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. Since creation, the District’s Board of Directors has approved four annexations of land into the District and two exclusions from the District, resulting in a current total land area within the District of approximately 417 acres. The District is located entirely within the extraterritorial jurisdiction of the City of Manor and entirely within Travis County, Texas. The District is located approximately ten miles northeast of the central business district of the City of Austin, lies adjacent to the city limits of Manor, and is bounded by U.S. Highway 290 on the south. The District is one of four political subdivisions, including Travis County Municipal Utility District No. 2, Wilbarger Creek Municipal Utility District No. 1, and Wilbarger Creek Municipal Utility District No. 2 (the “Participant Districts”), created to provide water, wastewater, and storm drainage to approximately 1,514 acres located within Travis County, Texas. Under this arrangement, Wilbarger Creek Municipal Utility District No. 2 serves as the “Master District” for the purpose of coordinating the design, construction, ownership, operation, and maintenance of the water distribution and treatment, wastewater collection and treatment, drainage, and water quality facilities to serve the Participant Districts.



# **COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1 MANAGEMENT’S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2019**

## **USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management’s Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the “Governmental Funds Total” column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled “Governmental Funds Total”) that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District’s net position will indicate financial health.

The *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* includes a column (titled “Governmental Funds Total”) that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Positions and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances*.

The *Required Supplementary Information* presents a comparison statement between the District’s adopted budget and its actual results.

# COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2019

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

#### Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2019	2018	
Current and other assets	\$ 4,250,425	\$ 2,856,510	\$ 1,393,915
Capital assets	9,840,441	5,973,416	3,867,025
Total Assets	14,090,866	8,829,926	5,260,940
Deferred Outflows of Resources	85,381	91,315	(5,934)
Current Liabilities	677,224	460,421	216,803
Long-term Liabilities	13,891,540	8,416,667	5,474,873
Total Liabilities	14,568,764	8,877,088	5,691,676
Net Investment in Capital Assets	(3,410,670)	(1,847,232)	(1,563,438)
Restricted	418,248	187,515	230,733
Unrestricted	2,599,905	1,703,870	896,035
Total Net Position	\$ (392,517)	\$ 44,153	\$ (436,670)

The District's net position decreased from \$44,153 in the previous fiscal year to a deficit balance of \$392,517 in the current fiscal year. Some of the District's assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$2,599,905

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2019	2018	
Property Taxes	\$ 1,443,667	\$ 1,006,455	\$ 437,212
Service Accounts	1,154,752	971,212	183,540
Other	319,126	305,684	13,442
<b>Total Revenues</b>	<b>2,917,545</b>	<b>2,283,351</b>	<b>634,194</b>
Contracted Master District services	1,158,016	1,064,704	93,312
Contracted services	437,395	379,761	57,634
Professional fees	115,010	102,896	12,114
Other	427,333	47,488	379,845
Debt Service	1,034,185	622,925	411,260
Depreciation/Amortization	182,276	129,755	52,521
<b>Total Expenses</b>	<b>3,354,215</b>	<b>2,347,529</b>	<b>1,006,686</b>
<b>Change in Net Position</b>	<b>(436,670)</b>	<b>(64,178)</b>	<b>(372,492)</b>
<b>Beginning Net Position</b>	<b>44,153</b>	<b>108,331</b>	<b>(64,178)</b>
<b>Ending Net Position</b>	<b>\$ (392,517)</b>	<b>\$ 44,153</b>	<b>\$ (436,670)</b>

Revenues were \$2,917,545 for the fiscal year ended September 30, 2019 while expenses were \$3,354,215. Net position decreased \$436,670.

Property tax revenues in the current fiscal year totaled \$1,443,667. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2018 tax year (September 30, 2019 fiscal year) were based upon a current assessed value of \$169,456,219 and a tax rate of \$0.85 per \$100 of assessed valuation. Property taxes levied for the 2017 tax year (September 30, 2018 fiscal year) were based upon an adjusted assessed value of \$118,012,416 and a tax rate of \$0.85 per \$100 of assessed valuation. The District's primary revenue sources are property taxes and service accounts.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>		
	2019	2018	2017
Cash and cash equivalents	\$ 3,984,059	\$ 2,611,411	\$ 1,984,363
Receivables	207,185	225,243	266,977
Total Assets	<u>\$ 4,191,244</u>	<u>\$ 2,836,654</u>	<u>\$ 2,251,340</u>
Accounts payable	\$ 63,638	\$ 64,984	\$ 47,932
Refundable deposits	144,706	126,476	109,506
Interfund payables	6,695	49,145	40,230
Intergovernmental payable	126,970	444	115,231
Total Liabilities	<u>342,009</u>	<u>241,049</u>	<u>312,899</u>
Deferred Inflows of Resources	<u>22,968</u>	<u>14,772</u>	<u>11,883</u>
Nonspendable	-	780	1,300
Restricted	1,058,161	469,883	206,494
Assigned	-	-	73,057
Unassigned	2,768,106	2,110,170	1,645,707
Total Fund Balance	<u>3,826,267</u>	<u>2,580,833</u>	<u>1,926,558</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,191,244</u>	<u>\$ 2,836,654</u>	<u>\$ 2,251,340</u>

For the fiscal year ended September 30, 2019, the District's governmental funds reflect a combined fund balance of \$3,826,267.

The General Fund fund balance increased by \$657,156 during the current fiscal year.

The Special Revenue Fund reflects no change in fiscal year 2019. The Special Revenue Fund incurred Master District monthly charges of \$1,158,016 and received operating transfers from the General Fund of \$564,940.

The Debt Service Fund reflects an increase of \$242,934 in fiscal year 2019. The Debt Service Fund remitted bond principal of \$250,000 and bond interest of \$375,032. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Projects Fund reflects an increase of \$345,344 in fiscal year 2019. The District issued \$3,000,000 of Series 2018 and \$3,000,000 of Series 2019 unlimited tax bonds and used the proceeds to purchase \$4,046,176 of infrastructure and pay \$632,476 of bond related expenditures.

# COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2019

## BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating expenditures. On September 11, 2018, the Board of Directors approved a budget including revenues of \$1,636,685 as compared to expenditures of \$585,672 and operating transfers of \$953,924. When comparing actual to budget, the District had a positive variance of \$560,067, which is primarily due to higher service account revenues and lower operating transfers as compared to budget. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

## CAPITAL ASSETS

The District's governmental activities have invested \$9,840,441 in infrastructure. The detail is reflected in the following schedule:

### Summary of Capital Assets, net

	9/30/2019	9/30/2018
Capital Assets:		
Water/Wastewater/Drainage	\$ 10,639,339	\$ 6,593,163
Less: Accumulated Depreciation	(798,898)	(619,747)
Total Net Capital Assets	<u>\$ 9,840,441</u>	<u>\$ 5,973,416</u>

More detailed information about the District's capital assets is presented in the *Notes to the Financial Statements*.

## LONG TERM DEBT

The District has the following balances outstanding on unlimited tax bonds:

	Bonds Payable
Series 2013	\$ 1,755,000
Series 2016	2,400,000
Series 2017	3,790,000
Series 2018	2,995,000
Series 2019	3,000,000
Total	<u>\$ 13,940,000</u>

The District owes approximately \$14 million to bondholders. During the year, the District made a principal payment of \$250,000. The ratio of the District's long-term debt to the total 2018 taxable assessed valuation (\$169,456,219) is 8.2%. The District's estimated population as of September 30, 2019, is 3,644. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The assessed value on property within the District for the 2019 tax year (September 30, 2020 fiscal year) is approximately \$209 million and the tax rate levied was \$0.85 per \$100 of assessed valuation. Approximately 16% of the property tax will fund general fund expenditures, approximately 41% will fund contracted Master District activity and approximately 43% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2020 projects an operating fund balance increase of \$130,931.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

# **FINANCIAL STATEMENTS**





**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2019**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Statement of Net Position
<b><u>ASSETS</u></b>							
Cash and cash equivalents:							
Cash	\$ 481,308	\$ -	\$ -	\$ -	\$ 481,308	\$ -	\$ 481,308
Cash equivalents	2,438,246	1,485	449,274	613,746	3,502,751	-	3,502,751
Receivables:							
Service accounts, net of allowance for doubtful accounts of \$ - 0 -	177,112	-	-	-	177,112	-	177,112
Taxes	7,225	9,095	6,648	-	22,968	-	22,968
Interfund	6,342	-	353	-	6,695	(6,695)	-
Other	150	-	-	-	150	-	150
Prepaid costs	260	-	-	-	260	65,876	66,136
Capital assets, net of accumulated depreciation:							
Water/Wastewater/Drainage System	-	-	-	-	-	9,840,441	9,840,441
<b>TOTAL ASSETS</b>	<b>\$ 3,110,643</b>	<b>\$ 10,580</b>	<b>\$ 456,275</b>	<b>\$ 613,746</b>	<b>\$ 4,191,244</b>	<b>\$ 9,899,622</b>	<b>\$ 14,090,866</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>							
Deferred charges on refunding	-	-	-	-	-	85,381	85,381
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,381</b>	<b>85,381</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,110,643</b>	<b>\$ 10,580</b>	<b>\$ 456,275</b>	<b>\$ 613,746</b>	<b>\$ 4,191,244</b>	<b>\$ 9,985,003</b>	<b>\$ 14,176,247</b>
<b><u>LIABILITIES</u></b>							
Accounts payable	\$ 63,638	\$ -	\$ -	\$ -	\$ 63,638	\$ -	\$ 63,638
Accrued interest payable	-	-	-	-	-	41,910	41,910
Refundable deposits	144,706	-	-	-	144,706	-	144,706
Interfund payables	-	1,483	5,212	-	6,695	(6,695)	-
Intergovernmental payables	126,968	2	-	-	126,970	-	126,970
Due to developer	-	-	-	-	-	241,302	241,302
Bonds payable:							
Due within one year	-	-	-	-	-	300,000	300,000
Due after one year	-	-	-	-	-	13,650,238	13,650,238
<b>TOTAL LIABILITIES</b>	<b>335,312</b>	<b>1,485</b>	<b>5,212</b>	<b>-</b>	<b>342,009</b>	<b>14,226,755</b>	<b>14,568,764</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>							
Property taxes	7,225	9,095	6,648	-	22,968	(22,968)	-
<b><u>FUND BALANCES / NET POSITION</u></b>							
Fund balances:							
Nonspendable	260	-	-	-	260	(260)	-
Restricted for debt service	-	-	444,415	-	444,415	(444,415)	-
Restricted for authorized construction	-	-	-	613,746	613,746	(613,746)	-
Unassigned	2,767,846	-	-	-	2,767,846	(2,767,846)	-
<b>TOTAL FUND BALANCES</b>	<b>2,768,106</b>	<b>-</b>	<b>444,415</b>	<b>613,746</b>	<b>3,826,267</b>	<b>(3,826,007)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,110,643</b>	<b>\$ 10,580</b>	<b>\$ 456,275</b>	<b>\$ 613,746</b>	<b>\$ 4,191,244</b>		
<b><u>NET POSITION</u></b>							
Net investment in capital assets						(3,410,670)	(3,410,670)
Restricted for Contracted Master District services						9,095	9,095
Restricted for debt service						409,153	409,153
Unrestricted						2,599,905	2,599,905
<b>TOTAL NET POSITION</b>						<b>\$ (392,517)</b>	<b>\$ (392,517)</b>

*The accompanying notes are an integral part of this statement.*

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**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
SEPTEMBER 30, 2019**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Statement of Activities
<b>REVENUES:</b>							
Property taxes, including penalties	\$ 388,987	\$ 591,076	\$ 455,408	\$ -	\$ 1,435,471	\$ 8,196	\$ 1,443,667
Service accounts, including penalties	1,154,752	-	-	-	1,154,752	-	1,154,752
Connection/inspection fees	239,994	-	-	-	239,994	-	239,994
Interest and other	49,020	6,238	13,195	10,679	79,132	-	79,132
<b>TOTAL REVENUES</b>	<u>1,832,753</u>	<u>597,314</u>	<u>468,603</u>	<u>10,679</u>	<u>2,909,349</u>	<u>8,196</u>	<u>2,917,545</u>
<b>EXPENDITURES / EXPENSES:</b>							
Current:							
Contracted Master District services	-	1,158,016	-	-	1,158,016	-	1,158,016
Garbage expenditures	174,958	-	-	-	174,958	-	174,958
Repairs/maintenance	86,781	-	-	-	86,781	-	86,781
Operations/management fee	116,718	-	-	-	116,718	-	116,718
Inspection/review fees	58,938	-	-	-	58,938	-	58,938
Director fees, including payroll taxes	5,975	-	-	-	5,975	-	5,975
Legal fees	56,424	-	-	-	56,424	-	56,424
Engineering fees	16,926	-	-	-	16,926	-	16,926
Audit fees	13,150	-	-	-	13,150	-	13,150
Bookkeeping fees	26,350	-	-	-	26,350	-	26,350
Financial advisor fees	585	889	686	-	2,160	-	2,160
Tax appraisal/collection	2,202	3,349	2,581	-	8,132	-	8,132
Insurance	5,204	-	-	-	5,204	-	5,204
Other consulting fees	10,759	-	-	-	10,759	-	10,759
Bank fees	27,457	-	-	-	27,457	-	27,457
Public notice	7,054	-	-	-	7,054	-	7,054
Other	1,176	-	-	-	1,176	-	1,176
Developer interest	-	-	-	361,576	361,576	-	361,576
Prior year operating advances	-	-	-	240,000	240,000	(240,000)	-
Debt service:							
Principal	-	-	250,000	-	250,000	(250,000)	-
Interest	-	-	375,032	-	375,032	24,677	399,709
Fiscal agent fees and other	-	-	2,000	-	2,000	-	2,000
Bond issuance fees	-	-	-	632,476	632,476	-	632,476
Capital outlay	-	-	-	4,046,176	4,046,176	(4,046,176)	-
Depreciation/amortization	-	-	-	-	-	182,276	182,276
<b>TOTAL EXPENDITURES / EXPENSES</b>	<u>610,657</u>	<u>1,162,254</u>	<u>630,299</u>	<u>5,280,228</u>	<u>7,683,438</u>	<u>(4,329,223)</u>	<u>3,354,215</u>
Excess / (deficiency) of revenues over expenditures	<u>1,222,096</u>	<u>(564,940)</u>	<u>(161,696)</u>	<u>(5,269,549)</u>	<u>(4,774,089)</u>	<u>4,337,419</u>	<u>(436,670)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond proceeds	-	-	404,630	5,595,370	6,000,000	(6,000,000)	-
Bond premium	-	-	-	19,523	19,523	(19,523)	-
Operating transfer	(564,940)	564,940	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(564,940)</u>	<u>564,940</u>	<u>404,630</u>	<u>5,614,893</u>	<u>6,019,523</u>	<u>(6,019,523)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>657,156</u>	<u>-</u>	<u>242,934</u>	<u>345,344</u>	<u>1,245,434</u>	<u>(1,245,434)</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>						<u>(436,670)</u>	<u>(436,670)</u>
<b>FUND BALANCES / NET POSITION:</b>							
Beginning of the year	<u>2,110,950</u>	<u>-</u>	<u>201,481</u>	<u>268,402</u>	<u>2,580,833</u>	<u>(2,536,680)</u>	<u>44,153</u>
<b>END OF THE YEAR</b>	<u>\$ 2,768,106</u>	<u>\$ -</u>	<u>\$ 444,415</u>	<u>\$ 613,746</u>	<u>\$ 3,826,267</u>	<u>\$ (4,218,784)</u>	<u>\$ (392,517)</u>

*The accompanying notes are an integral part of this statement.*

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# **NOTES TO THE FINANCIAL STATEMENTS**



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Cottonwood Creek Municipal Utility District No. 1 (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board* ("GASB"), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created effective June 4, 1985, by the Travis County Commissioner's Court as a water control and improvement district and subsequently converted to a municipal utility district by an Order of the Texas Natural Resource Conservation Commission, presently known as the Texas Commission on Environmental Quality (the "Commission") dated August 13, 2001. The District operates under Chapters 49 and 54 of the Texas Water Code pursuant to Article 16, Section 59 of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five-member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB standards which are included in the District's reporting entity. The Board of Directors held its first meeting on March 22, 1988, and the first bonds were sold August 9, 2006.

**Basis of Presentation - Government-wide and Fund Financial Statements** - These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

- **Government-wide financial statements:** The District's Statement of Net Position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the general fixed assets account group and the general long-term debt account group. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District's capital assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

**Governmental Fund Types** - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Special Revenue Fund** - The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- **Debt Service Fund** - The Debt Service Fund is used to account for resources restricted, committed, or assigned for the payment of debt principal, interest, and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed, or assigned for the acquisition or construction of major capital facilities.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Non-current Governmental Assets and Liabilities* - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

***Basis of Accounting***

*Government-wide Statements* - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

*Fund Financial Statements* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net current assets. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available).

“Measurable” means that the amount of the transaction can be determined and “available” means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. All other revenues of the District are recorded on the accrual basis in all funds.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

***Basis of Accounting (continued)***

The District reports deferred revenue on its combined balance sheet. Deferred inflows of resources arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for the deferred inflows of resources is removed from the combined balance sheet and revenue is recognized.

***Budgets and Budgetary Accounting*** - A budget was adopted on September 11, 2018, for the General Fund on a basis consistent with generally accepted accounting principles. The District’s Board of Directors utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

***Cash and Cash Equivalents*** - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of common trust funds, money market funds, and obligations in the State Treasurer’s Investment Pool are recorded at amortized cost.

***Capital Assets*** - Capital assets, which include Land and Water, Wastewater and Drainage Systems are reported in the government-wide column in the Statement of Net Position. Public domain (“infrastructure”) capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated acquisition value at the time received. Interest incurred during construction of capital facilities is not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u><b>Asset</b></u>	<u><b>Years</b></u>
Water/Wastewater/Drainage System	10 - 50

***Interfund Transactions*** - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that amount and if the debtor fund has 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.



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

**Long-Term Debt** - Combination unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from property tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

**Fund Balance** – Fund balances in governmental funds are classified using the following hierarchy:

- *Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted*: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.
- *Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.
- *Assigned*: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District does not have any assigned balances.
- *Unassigned*: all other spendable amounts in the General Fund.

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

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

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

***Fair Value Measurements*** - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations

***New Accounting Pronouncement*** – In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 89 is to enhance the relevance and comparability of information about capital assets and to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements. Management has chosen to early implement GASB Statement No. 89 as of and for the year ended September 30, 2019.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows:

Fund Balances - Total Governmental Funds		\$ 3,826,267
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds-		
Capital assets	\$ 10,639,339	
Less: Accumulated depreciation	<u>(798,898)</u>	9,840,441
Bond insurance premium, net		65,876
Deferred charges, net		85,381
Revenue is recognized when earned in the government statements, regardless of availability. Governmental funds report deferred inflows of resources for revenues earned but not available		22,968
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Bonds payable, net	\$(13,950,238)	
Due to developer	(241,302)	
Accrued interest	<u>(41,910)</u>	<u>(14,233,450)</u>
Net Position - Governmental Activities		<u><u>\$ (392,517)</u></u>

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

Net Change in Fund Balances - Governmental Funds		\$ 1,245,434
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report:		
Bond principal payments as expenditures	\$ 250,000	
Developer advance in year received/repaid, net	240,000	
Interest expenditures in year paid	(24,677)	
Tax revenue when collected	8,196	
Capital outlay in year paid	4,046,176	
Bond sale, net, as other financing source	<u>(6,019,523)</u>	(1,499,828)
Governmental funds do not report:		
Depreciation/amortization		<u>(182,276)</u>
Change in Net Position - Governmental Activities		<u><u>\$ (436,670)</u></u>

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**3. CASH AND INVESTMENTS**

The investment policies of the District are governed by State statute and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

**Cash** - At September 30, 2019, the carrying amount of the District's deposits was \$481,308 and the bank balance was \$498,780. The bank balance was covered by federal depository insurance and other pledged collateral.

***Investments*** -

**Interest rate risk.** In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

**Credit risk.** The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; and
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS (continued) –**

At September 30, 2019, the District held the following investments:

Investment	Fair Value at 9/30/2019	Governmental Fund				Investment Rating	
		General	Special Revenue	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)	Restricted (3)		
Texpool	\$ 3,502,751	\$ 2,438,246	\$ 1,485	\$ 449,274	\$ 613,746	AAAm	Standard & Poors
	<u>\$ 3,502,751</u>	<u>\$ 2,438,246</u>	<u>\$ 1,485</u>	<u>\$ 449,274</u>	<u>\$ 613,746</u>		

(1) Restricted for Payment of contractual Master District obligations.

(2) Restricted for Payment of Debt Service and Cost of Assessing and Collecting Taxes.

(3) Restricted for Purchase of Capital Assets.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

*Concentration of credit risk.* In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2019, the District did not own any investments in individual securities.

*Custodial credit risk-deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2019, the District's bank deposits were covered by FDIC insurance and other pledged collateral.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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SEPTEMBER 30, 2019**

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**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District establishes appraised values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set tax rates for the 2018 tax year (September 30, 2019 fiscal year) on September 11, 2018.

The property tax rates, established in accordance with State law, were based on 100% of the net assessed valuation of real property within the District on the 2018 tax roll. The tax rate, based on total taxable assessed valuation of \$169,456,219 was \$0.85 on each \$100 valuation and was allocated as follows:

	<b>Tax Rate</b>
General Fund	\$ 0.2302
Special Revenue Fund	0.3500
Debt Service Fund	0.2698
	<u>\$ 0.8500</u>

The maximum allowable maintenance tax of \$1.50 was established by the voters on May 3, 2003.

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

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
Current year levy	\$ 2,765	\$ 4,203	\$ 3,240	\$ 10,208
Prior years' levies	4,460	4,892	3,408	12,760
	<u>\$ 7,225</u>	<u>\$ 9,095</u>	<u>\$ 6,648</u>	<u>\$ 22,968</u>

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**5. CONTRACT TAXES**

At an election held May 3, 2003, voters authorized a contract tax on all property within the District subject to taxation. During the year ended September 30, 2019, the District levied an ad valorem contract tax at the rate of \$0.35 per \$100 of assessed valuation, which resulted in a tax levy of \$593,466 on taxable valuation of \$169,456,219 for the 2018 tax year (September 30, 2019 fiscal year). This contract tax was used to pay for the District's pro rata share of operations and maintenance expenses and reserve requirements on Master District Facilities as described in Note 9.

**6. INTERFUND ACCOUNTS**

A summary of interfund accounts at September 30, 2019, is as follows:

	<b>Interfund</b>	
	<b>Receivables</b>	<b>Payables</b>
<b>General Fund -</b>		
Special Revenue Fund	\$ 1,130	\$ -
Debt Service Fund	5,212	-
<b>Special Revenue Fund -</b>		
General Fund	-	1,130
Debt Service Fund	-	353
<b>Debt Service Fund -</b>		
General Fund	-	5,212
Special Revenue Fund	353	-
	<u>\$ 6,695</u>	<u>\$ 6,695</u>

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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**7. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 10/1/2018	Additions	Deletions	Balance 9/30/2019
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Water/Wastewater/Drainage System	6,593,163	4,046,176	-	10,639,339
Total capital assets being depreciated	6,593,163	4,046,176	-	10,639,339
Less accumulated depreciation for:				
Water/Wastewater/Drainage System	(619,747)	(179,151)	-	(798,898)
Total accumulated depreciation	(619,747)	(179,151)	-	(798,898)
Total capital assets being depreciated, net of accumulated depreciation	5,973,416	3,867,025	-	9,840,441
Total capital assets, net	\$ 5,973,416	\$ 3,867,025	\$ -	\$ 9,840,441

**8. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2019:

	Combination Unlimited Tax Bonds
Bonds payable at October 1, 2018	\$ 8,190,000
Bonds issued	6,000,000
Bonds refunded	-
Bonds retired	(250,000)
Subtotal	13,940,000
Plus: Bond Premiums/Discounts, net of amortization	10,238
Bonds payable at September 30, 2019	\$ 13,950,238

Bonds payable at September 30, 2019, were comprised of the following individual issues:

**Unlimited Tax Bonds:**

\$2,400,000 - 2016 Unlimited Tax Bonds paid serially through the year 2040 at interest rates which range from 2.00% to 4.00%. Bonds maturing on or after September 1, 2023 are redeemable on September 1, 2022 or on any date thereafter. Bonds maturing on September 1, 2034, 2037 and 2040 are term bonds subject to mandatory sinking fund requirements.

\$3,790,000 - 2017 Unlimited Tax Bonds paid serially through the year 2040 at interest rates which range from 2.125% to 4.00%. Bonds maturing on or after September 1, 2025 are redeemable on September 1, 2024 or on any date thereafter. Bonds maturing on September 1, 2032, 2036 and 2040 are term bonds subject to mandatory sinking fund requirements.



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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SEPTEMBER 30, 2019**

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**8. BONDED DEBT (continued) -**

**Unlimited Tax Bonds (continued):**

\$2,995,000 - 2018 Unlimited Tax Bonds paid serially through the year 2041 at interest rates which range from 3.00% to 4.00%. Bonds maturing on or after September 1, 2026 are redeemable on September 1, 2025 or on any date thereafter. Bonds maturing on September 1, 2030, 2032, 2034, 2036, 2038 and 2041 are term bonds subject to mandatory sinking fund requirements.

\$3,000,000 - 2019 Unlimited Tax Bonds paid serially through the year 2042 at an interest rate of 3.00%. Bonds maturing on or after September 1, 2028 are redeemable on September 1, 2027 or on any date thereafter. Bonds maturing on September 1, 2031, 2036, 2039 and 2042 are term bonds subject to mandatory sinking fund requirements.

**Unlimited Tax Refunding Bonds:**

\$1,755,000 - 2013 Unlimited Tax Refunding Bonds paid serially through the year 2033 at interest rates which range from 3.00% to 4.00%. Bonds maturing on or after September 1, 2020 are redeemable on September 1, 2019 or on any date thereafter. Bonds maturing on September 1, 2031 and 2033 are term bonds subject to mandatory sinking fund requirements.

The annual requirement to amortize all bonded debt at September 30, 2019, including interest, is as follows:

<b>Year Ended September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 300,000	\$ 472,161	\$ 772,161
2021	310,000	457,561	767,561
2022	425,000	447,011	872,011
2023	440,000	432,736	872,736
2024	460,000	417,717	877,717
2025 - 2029	2,690,000	1,858,876	4,548,876
2030 - 2034	3,350,000	1,380,845	4,730,845
2035 - 2039	3,995,000	769,944	4,764,944
2040 - 2042	1,970,000	121,987	2,091,987
	<u>\$ 13,940,000</u>	<u>\$ 6,358,838</u>	<u>\$ 20,298,838</u>

\$444,415 is available in the Debt Service Fund to service the bonded debt. Bonds authorized but not issued amounted to \$26,020,000 at September 30, 2019.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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SEPTEMBER 30, 2019**

**9. FINANCING AND OPERATION OF REGIONAL FACILITIES**

On March 6, 2003, the District entered into an Amended and Restated Contract for Financing and Operation of Regional Waste Collection, Treatment and Disposal Facilities; Regional Water Supply and Delivery Facilities and Regional Drainage, Including Water Quality Facilities (the “Master District Contract”). In addition to the District, parties to the Master District Contract include Travis County Municipal Utility District No. 2 (“Travis County MUD No. 2”), Wilbarger Creek Municipal Utility District No. 1 (“Wilbarger Creek MUD No. 1”) and Wilbarger Creek Municipal Utility District No. 2 (“Wilbarger Creek MUD No. 2”), collectively, (the “Participant Districts”). This Contract amended and restated a prior master district contract entered into between the Participant Districts that was not submitted to the voters for approval.

***General***

The District along with the other three Participant Districts were created as conservation and reclamation districts for the purpose of providing water, wastewater and drainage facilities to the land within their respective boundaries. Pursuant to an election held within the boundaries of each Participant District, the voters in each Participant District approved the Master District Contract, which designates Wilbarger Creek MUD No. 2 as the “Master District” to serve as the regional provider of water and wastewater facilities to serve development within the Participants Districts. The Master District Contract also authorizes the Master District to issue contract tax bonds to acquire, purchase, construct and maintain Master District facilities to serve the Participants Districts (“Master District Facilities”). The Master District owns and operates the Master District Facilities.

***Master District Service Area***

The chart below more completely describes the Participant Districts, including each Participant District’s acreage and projected ultimate living unit equivalents (“LUEs”) based on current land use plans.

Participant	Acreage <sup>(a)</sup>	Existing LUEs <sup>(b)</sup>	Projected Ultimate LUEs <sup>(c)</sup>
Travis County MUD No. 2	404.11	1,019	1,247
The District	417.70	1,115	2,216
Wilbarger Creek MUD No. 1	300.42	405	1,555
Wilbarger Creek MUD No. 2	<u>392.10</u>	<u>72</u>	<u>1,449</u>
<b>Sub-Total</b>	1,514.33	2,610	6,467
Park & Irrigation	<u>          </u>	<u>-</u>	<u>100</u>
<b>Total</b>	<b><u>1,514.33</u></b>	<b><u>2,610</u></b>	<b><u>6,567</u></b>

(a) Gross acreage includes all easements, rights-of-way and any other undevelopable acreage.

(b) As of September 30, 2019.

(c) Provided by the Developers and represents the existing land use plan. The District makes no representation that property within the Master District or within the Participant Districts will develop as shown above.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

The currently estimated 6,567 LUEs projected to be developed within the Participant Districts are in excess of the 6,010 LUEs currently reserved for the Participant Districts under the Amended and Restated Regional Water Capacity and Supply Agreement for a portion of Northeastern Travis County, Texas (as amended, the “Water Supply Contract”), and the Amended and Restated Regional Sewage Disposal Capacity and Service Agreement for a portion of Northeastern Travis County, Texas (the “Wastewater Treatment Contract”). In connection with the acquisition of the wastewater treatment plant that serves the Participant Districts from Metro H2O, Ltd., now known as Metro Water Systems, Inc. (“Metro”), the Master District acquired Metro’s interest in the Wastewater Treatment Contract. The developers and landowners within the Participant Districts have stated that they expect to commence negotiations with the Master District, with respect to the Wastewater Treatment Contract, and with Metro, with respect to the Water Supply Contract, regarding amending these contracts to increase the existing LUE capacities.

Each of the Participant Districts has executed the Contract with the Master District and obtained the approval of the Master District Contract by its respective voters. The Master District Contract provides that all Participant Districts will pay a pro rata share of debt service on the Master District bonds, based upon each Participant District’s assessed valuation as a percentage of the total certified assessed valuation in the Master District’s service area. Each Participant District is obligated to pay its pro rata share of the annual debt service payments from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount, including the charges and costs of paying agents, registrars, and trustees utilized in connection with the Master District bonds; the principal, interest and redemption requirements of the Master District bonds; and all amounts required to establish and maintain funds established under any related bond resolution or trust indenture. Each Participant District’s pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a contract tax or collection of any other available means of payment is the sole responsibility of each Participant District.

The Master District facilities (or capacity therein) constructed or acquired to date have been acquired or constructed with funds provided by the developers and proceeds of the Master District’s Series 2006, Series 2008, Series 2017 and Series 2018 Bonds. Future water LUE Fee payments required under the Water Supply Contract are expected to be paid by builders on a connection by connection basis. As a result of the Master District’s purchase of the wastewater treatment plant, there are no further wastewater LUE fee payments due. The Master District intends to finance future expansions of the wastewater treatment plant through the issuance of bonds. The Master District Contract also provides for payment of operation and maintenance costs for facilities constructed or acquired pursuant to the Master District Contract; duties of the parties; provides for the establishment and maintenance of funds; and includes other provisions relevant to the relationship of the parties.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

The chart below further describes the Participant Districts and their respective pro rata shares of the Master District Bonds based upon their certified 2019 Assessed Valuation.

Participant	Assessed Valuation <sup>(a)</sup>	of Master District Debt	of Average Annual Debt of \$1,264,819 <sup>(b)</sup>
Travis County MUD No. 2	\$ 236,256,946	45.9%	\$ 580,996
The District	209,323,126	40.7%	514,761
Wilbarger Creek MUD No. 2	7,509,943	1.5%	18,468
Wilbarger Creek MUD No. 1	61,237,474	11.9%	150,593
	<u>\$ 514,327,489</u>	<u>100%</u>	<u>\$ 1,264,819</u>

(a) Assessed valuations as of January 1, 2019 as certified by the Appraisal District.

(b) Preliminary; subject to change.

The Master District owns and operates the Master District facilities. Each Participant District within the Master District service area (including the Master District in its capacity as a provider of internal water distribution, wastewater collection and storm drainage to serve the acreage within its boundaries) owns or will own the internal water distribution, wastewater collection and storm drainage lines within its boundaries. Additionally, the Participant Districts are required to operate, maintain and provide retail billing and collection services for their respective internal facilities. The internal facilities have been or are expected to be financed with unlimited tax bonds sold by each of the Participant Districts, including the Master District in its role as Participant District. It is anticipated that the Master District Facilities will be acquired or constructed in stages to meet the needs of a continually expanding population within the Master District service area. If the Master District fails to meet its obligations to provide Master District Facilities as required by the Master District Contract, each Participant District has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide service to each Participant District, and to convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual reasonably necessary capital costs expended by that Participant District for such Master District Facilities.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

Each Participant District is further obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract (“Monthly Charges”). The Monthly Charges to be paid by each Participant District to the Master District will be used to pay each Participant District’s share of operation and maintenance costs and to provide for an operation and maintenance reserve equal to three months of operation and maintenance costs or such other amount as determined by the Master District’s financial advisor. For fiscal year 2019, the Master District’s financial advisor has recommended maintenance of a three-month operation and maintenance reserve to be set aside in a separate fund by the Master District, as well as maintenance of funds equal to approximately two months budgeted expenses in the Master District’s general fund. Each Participant District’s share of operation and maintenance costs and reserve requirements is calculated by the Master District based upon the following categories of costs: (i) direct costs, including LUE fee payments and other costs directly incurred by the Participant District; (ii) volume-related costs, including actual usage fees related to water supply and wastewater collection and treatment; and (iii) all other costs, including administrative costs.

Pursuant to the Master District Contract, each Participant District is obligated to establish and maintain rates, fees and charges for services provided by each Participant District’s water distribution system and wastewater collection system, which, together with taxes levied and funds received from any other lawful sources, are sufficient at all times to pay its operation and maintenance costs and its obligations pursuant to the Master District Contract, including its pro rata share of the Master District’s debt service requirements and Monthly Charges. All sums payable by each Participant District to the Master District pursuant to the Master District Contract are to be paid without set off, counterclaim, abatement, suspension or diminution. If any Participant District fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District may withhold, in whole or in part, any reservation or allocation of capacity in the Master District Facilities to such Participant District, in addition to the Master District’s other remedies pursuant to the Master District Contract. Under certain conditions, the Master District may, with the consent of all Participant Districts, extend the Master District service area and provide services to other parties who will become Participant Districts and agree to assume their pro rata share of the bonded indebtedness of the Master District Facilities in the same manner as the existing Participant Districts. In addition, the Master District may, with the consent of all Participant Districts, provide services to others, as long as the provision of such services does not impair the right of a Participant District to receive service from the Master District.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

*Transaction Summary – Master District Operations & Maintenance*

Transactions for the year ended September 30, 2019, are summarized as follows:

	Receivable/ (Payable) Balance, 10/1/2018	Current Fiscal Year		Receivable/ (Payable) Balance, 9/30/2019
		Billings	Payments	
Travis County MUD No. 2	\$ 26,420	\$ 679,873	\$ (515,554)	\$ 190,739
The District	444	564,940	(438,416)	126,968
Wilbarger Creek MUD No. 1	320,453	143,506	(180,368)	283,591
Wilbarger Creek MUD No. 2	(30,830)	(96,554)	1,647	(125,737)
	<u>\$ 316,487</u>	<u>\$ 1,291,765</u>	<u>\$ (1,132,691)</u>	<u>\$ 475,561</u>

*Transaction Summary – Master District Debt Service*

Transactions for the year ended September 30, 2019, are summarized as follows:

	Receivable/ (Payable) Balance, 10/1/2018	Current Fiscal Year		Receivable/ (Payable) Balance, 9/30/2019
		Billings	Payments	
Travis County MUD No. 2	\$ 1,886	\$ 725,388	\$ (734,891)	\$ (7,617)
The District	(593)	593,076	(592,481)	2
Wilbarger Creek MUD No. 1	439	139,614	(143,134)	(3,081)
Wilbarger Creek MUD No. 2	61	26,338	(26,379)	20
	<u>\$ 1,793</u>	<u>\$ 1,484,416</u>	<u>\$ (1,496,885)</u>	<u>\$ (10,676)</u>

**10. COMMITMENTS AND CONTINGENCIES**

The developers of the land within the District have incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality, or from operations. On May 3, 2003, at a bond election held within the District, the District's voters authorized the issuance of \$41,060,000 of bonds to fund costs of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District's engineer's report. On February 7, 2004, the District's voters authorized a total of \$5,250,000 in bonds for park and recreational facilities. As of September 30, 2019, the District has issued \$15,040,000 of Unlimited Tax Bonds to reimburse developers.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**11. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (the “TML Pool”) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

**12. DEFICIT IN NET INVESTMENT IN CAPITAL ASSETS**

Net investment in capital assets had a deficit balance of \$3,410,670 at September 30, 2019. This is primarily attributable to capitalized interest, bond proceeds transferred to the General Fund, developer advances and depreciation/amortization expense associated with the District’s bond issues.

**13. BOND SALES**

On October 9, 2018, the District issued \$3,000,000 of Unlimited Tax Bonds, Series 2018. Proceeds of the bonds were used to reimburse developers within the District for certain water, wastewater and drainage facilities and operating expenses. The bonds were sold with interest rates ranging from 3.00% to 4.00% and principal maturities through September 2041.

On August 13, 2019, the District issued \$3,000,000 of Unlimited Tax Bonds, Series 2019. Proceeds of the bonds were used to reimburse developers within the District for certain water, wastewater and drainage facilities and operating expenses. The bonds were sold with an interest rate of 3.00% and principal maturities through September 2042.

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# **REQUIRED SUPPLEMENTARY INFORMATION**



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
SEPTEMBER 30, 2019**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 388,987	\$ 383,571	\$ 5,416
Service accounts	1,154,752	1,007,414	147,338
Connection/inspection fees	239,994	227,700	12,294
Interest	49,020	18,000	31,020
<b>TOTAL REVENUES</b>	<u>1,832,753</u>	<u>1,636,685</u>	<u>196,068</u>
<b>EXPENDITURES:</b>			
Current:			
Garbage expenditures	174,958	162,625	(12,333)
Repairs/maintenance	86,781	113,500	26,719
Operations/management fee	116,718	101,264	(15,454)
Inspection/review fees	58,938	66,000	7,062
Director fees, including payroll taxes	5,975	6,783	808
Legal fees	56,424	39,000	(17,424)
Engineering fees	16,926	16,800	(126)
Audit fees	13,150	13,250	100
Bookkeeping fees	26,350	26,100	(250)
Financial advisor fees	585	800	215
Tax appraisal/collection	2,202	3,000	798
Insurance	5,204	5,000	(204)
Other consulting fees	10,759	-	(10,759)
Bank fees	27,457	24,000	(3,457)
Public notice	7,054	1,000	(6,054)
Other	1,176	6,550	5,374
<b>TOTAL EXPENDITURES</b>	<u>610,657</u>	<u>585,672</u>	<u>(24,985)</u>
Excess / (deficiency) of revenues over expenditures	<u>1,222,096</u>	<u>1,051,013</u>	<u>171,083</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer	<u>(564,940)</u>	<u>(953,924)</u>	<u>388,984</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(564,940)</u>	<u>(953,924)</u>	<u>388,984</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>657,156</u>	<u>\$ 97,089</u>	<u>\$ 560,067</u>
Beginning of the year	<u>2,110,950</u>		
End of the year	<u>\$ 2,768,106</u>		

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**TEXAS SUPPLEMENTARY  
INFORMATION**



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**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2019**

**1. Services Provided by the District during the Fiscal Year:**

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

**2. Retail Service Providers**

**a. Retail Rates Based on 5/8" Meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons	Usage Levels
WATER:	\$ 38.94	N/A	N	\$ 5.45	0 to 15,000 gallons
				\$ 7.20	Over 15,001
WASTEWATER:	\$ -	N/A	N	\$ 7.50	per 1,000 gallons
SURCHARGE:	\$ -	-	-	\$ -	

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

Total charges per 10,000 gallons usage:	Water	\$ 93.44	Wastewater	\$ 75.00
---	-------	----------	------------	----------

**b. Water and Wastewater Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	-	-	1.0	-
< 3/4"	1,067	1,065	1.0	1,065
1"	-	-	2.5	-
1 1/2"	3	2	5.0	10
2"	4	3	8.0	24
3"	1	1	15.0	15
4"	-	-	25.0	-
6"	-	-	50.0	-
8"	-	-	80.0	-
10"	-	-	115.0	-
Total Water	1,075	1,071		1,114
Total Wastewater	1,068	1,064	1.0	1,064



**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2019**

---

**3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):**

Gallons pumped into system: \_\_\_\_\_<sup>(1)</sup>  
Gallons billed to customers: \_\_\_\_\_ 98,629,000

<b>Water Accountability Ratio</b> (Gallons billed / Gallons Pumped) (1)
---

**4. Standby Fees** (authorized only under TWC Section 49.231):

Does the District assess standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: \_\_\_\_\_

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

If yes, Date of the most recent Commission Order: \_\_\_\_\_

**5. Location of District**

County(ies) in which district is located: \_\_\_\_\_ Travis

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

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

City(ies) in which district is located: \_\_\_\_\_ N/A

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which district is located: \_\_\_\_\_ City of Manor

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? \_\_\_\_\_

<sup>(1)</sup> District services provided by Wilbarger Creek M.U.D. No. 2 (Master District).

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-2. GENERAL FUND EXPENDITURES  
SEPTEMBER 30, 2019**

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Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	13,150
Legal	56,424
Engineering	16,926
Financial Advisor	585
Purchased Services For Resale-	
Bulk Water and Wastewater Purchases	-
Contracted Services:	
Bookkeeping	26,350
General Manager	116,718
Appraisal District	1,732
Tax Collector	470
Other Contracted Services	69,697
Utilities	-
Repairs and Maintenance	86,781
Administrative Expenditures:	
Directors' Fees	5,975
Office Supplies	-
Insurance	5,204
Other Administrative Expenditures	35,687
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	-
Tap Connection Expenditures	-
Solid Waste Disposal	174,958
Fire Fighting	-
Parks and Recreation	-
Other Expenditures	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 610,657</b>

Number of persons employed by the District:

☐ Full-Time

☐ Part-Time

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-3. TEMPORARY INVESTMENTS  
SEPTEMBER 30, 2019**

<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable at End of Year</b>
<b>General Fund:</b>					
State Investment Pool	XXX0001	Varies	N/A	\$ 2,438,246	\$ -
Total				2,438,246	-
<b>Special Revenue Fund-</b>					
State Investment Pool	XXX0002	Varies	N/A	1,485	-
Total				1,485	-
<b>Debt Service Fund:</b>					
State Investment Pool	XXX0003	Varies	N/A	137,543	-
State Investment Pool	XXX0008	Varies	N/A	128,803	-
State Investment Pool	XXX0010	Varies	N/A	182,928	-
Total				449,274	-
<b>Capital Projects Fund-</b>					
State Investment Pool	XXX0005	Varies	N/A	53,969	-
State Investment Pool	XXX0006	Varies	N/A	220,876	-
State Investment Pool	XXX0009	Varies	N/A	147,888	-
State Investment Pool	XXX0011	Varies	N/A	191,013	-
Total				613,746	-
Total - All Funds				\$ 3,502,751	\$ -

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-4. TAXES LEVIED AND RECEIVABLE  
SEPTEMBER 30, 2019**

	<u>Maintenance Taxes</u>	<u>Contract Taxes</u>	<u>Debt Service Taxes</u>
<b>Taxes Receivable, Beginning of Year:</b>	\$ 5,221	\$ 5,720	\$ 3,831
2018 Original Tax Levy, net of adjustments	390,332	593,466	457,477
Total to be accounted for	<u>395,553</u>	<u>599,186</u>	<u>461,308</u>
Tax collections:			
Prior years	761	828	423
Current year	387,567	589,263	454,237
Total collections	<u>388,328</u>	<u>590,091</u>	<u>454,660</u>
<b>Taxes Receivable, End of Year</b>	<u><u>\$ 7,225</u></u>	<u><u>\$ 9,095</u></u>	<u><u>\$ 6,648</u></u>
<b>Taxes Receivable, By Years:</b>			
2017 and before	\$ 4,460	\$ 4,892	\$ 3,408
2018	<u>2,765</u>	<u>4,203</u>	<u>3,240</u>
<b>Taxes Receivable, End of Year</b>	<u><u>\$ 7,225</u></u>	<u><u>\$ 9,095</u></u>	<u><u>\$ 6,648</u></u>

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(a)	(a)	(a)	(a)
<b>Property Valuations:</b>				
Land and improvements	<u>\$ 169,456,219</u>	\$ 118,012,416	\$ 84,853,002	\$ 62,538,436
<b>Total Property Valuations</b>	<u><u>\$ 169,456,219</u></u>	<u>\$ 118,012,416</u>	<u>\$ 84,853,002</u>	<u>\$ 62,538,436</u>
<b>Tax Rates per \$100 Valuation:</b>				
Contract tax rates	\$ 0.3500	\$ 0.3500	\$ 0.3500	\$ 0.3500
Debt Service tax rates	0.2698	0.1788	0.2425	0.1746
Maintenance tax rates	<u>0.2302</u>	<u>0.3212</u>	<u>0.3245</u>	<u>0.3924</u>
<b>Total Tax Rates per \$100 Valuation</b>	<u><u>\$ 0.8500</u></u>	<u>\$ 0.8500</u>	<u>\$ 0.9170</u>	<u>\$ 0.9170</u>
<b>Original Tax Levy</b>	<u><u>\$ 1,440,378</u></u>	<u>\$ 1,003,106</u>	<u>\$ 778,102</u>	<u>\$ 573,477</u>
<b>Percent of Taxes Collected to Taxes Levied **</b>	<u><u>99.3%</u></u>	<u>99.8%</u>	<u>99.8%</u>	<u>99.8%</u>
<b>Maximum Maintenance Tax Rate Approved by Voters:</b>	<u>\$ 1.50 on 5/3/2003.</u>			

\*\*Calculated as taxes collected in current and previous years divided by tax levy.

(a) Valuations are provided by the appropriate Appraisal District. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed in the District's bond offering documents or the District's annual bond disclosure filings.

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2019**

Fiscal Year Ending	Unlimited Tax Refunding Bonds Series 2013			Unlimited Tax Bonds Series 2016			Unlimited Tax Bonds Series 2017			Unlimited Tax Bonds Series 2018			Unlimited Tax Bonds Series 2019			Annual Requirements for All Series		
	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total	Principal Due	Interest Due	Total
	9/01	3/01, 9/01		9/01	3/01, 9/01		9/01	3/01, 9/01		9/01	3/01, 9/01		9/01	3/01, 9/01		9/01	3/01, 9/01	
2020	\$ 95,000	\$ 65,011	\$ 160,011	\$ 25,000	\$ 88,338	\$ 113,338	\$ 135,000	\$ 120,681	\$ 255,681	\$ 5,000	\$ 103,631	\$ 108,631	\$ 40,000	\$ 94,500	\$ 134,500	\$ 300,000	\$ 472,161	\$ 772,161
2021	100,000	62,161	162,161	25,000	87,838	112,838	140,000	115,281	255,281	5,000	103,481	108,481	40,000	88,800	128,800	310,000	457,561	767,561
2022	105,000	59,061	164,061	25,000	87,338	112,338	145,000	109,681	254,681	100,000	103,331	203,331	50,000	87,600	137,600	425,000	447,011	872,011
2023	105,000	55,649	160,649	25,000	86,775	111,775	155,000	103,881	258,881	105,000	100,331	205,331	50,000	86,100	136,100	440,000	432,736	872,736
2024	110,000	52,105	162,105	25,000	86,150	111,150	160,000	97,681	257,681	110,000	97,181	207,181	55,000	84,600	139,600	460,000	417,717	877,717
2025	115,000	48,255	163,255	25,000	85,463	110,463	165,000	92,881	257,881	115,000	92,781	207,781	60,000	82,950	142,950	480,000	402,330	882,330
2026	120,000	44,115	164,115	25,000	84,738	109,738	170,000	89,375	259,375	120,000	88,181	208,181	65,000	81,150	146,150	500,000	387,559	887,559
2027	130,000	39,615	169,615	25,000	83,988	108,988	175,000	85,550	260,550	120,000	84,581	204,581	70,000	79,200	149,200	520,000	372,934	892,934
2028	130,000	34,740	164,740	50,000	83,188	133,188	160,000	81,175	241,175	125,000	80,981	205,981	120,000	77,100	197,100	585,000	357,184	942,184
2029	135,000	29,800	164,800	50,000	81,563	131,563	170,000	76,775	246,775	130,000	77,231	207,231	120,000	73,500	193,500	605,000	338,869	943,869
2030	145,000	24,400	169,400	50,000	79,875	129,875	170,000	72,100	242,100	135,000	73,006	208,006	120,000	69,900	189,900	620,000	319,281	939,281
2031	150,000	18,600	168,600	50,000	78,188	128,188	180,000	67,000	247,000	145,000	68,619	213,619	125,000	66,300	191,300	650,000	298,707	948,707
2032	155,000	12,600	167,600	50,000	76,388	126,388	190,000	61,600	251,600	150,000	63,906	213,906	125,000	62,550	187,550	670,000	277,044	947,044
2033	160,000	6,400	166,400	50,000	74,588	124,588	200,000	55,900	255,900	155,000	59,031	214,031	125,000	58,800	183,800	690,000	254,719	944,719
2034	-	-	-	225,000	72,788	297,788	205,000	49,650	254,650	160,000	53,606	213,606	130,000	55,050	185,050	720,000	231,094	951,094
2035	-	-	-	250,000	64,688	314,688	195,000	43,244	238,244	165,000	48,006	213,006	130,000	51,150	181,150	740,000	207,088	947,088
2036	-	-	-	275,000	55,625	330,625	185,000	36,906	221,906	175,000	42,231	217,231	135,000	47,250	182,250	770,000	182,012	952,012
2037	-	-	-	275,000	45,313	320,313	205,000	30,894	235,894	180,000	36,106	216,106	140,000	43,200	183,200	800,000	155,513	955,513
2038	-	-	-	275,000	35,000	310,000	225,000	23,975	248,975	185,000	29,581	214,581	140,000	39,000	179,000	825,000	127,556	952,556
2039	-	-	-	300,000	24,000	324,000	220,000	16,100	236,100	195,000	22,875	217,875	145,000	34,800	179,800	860,000	97,775	957,775
2040	-	-	-	300,000	12,000	312,000	240,000	8,400	248,400	205,000	15,562	220,562	145,000	30,450	175,450	890,000	66,412	956,412
2041	-	-	-	-	-	-	-	-	-	210,000	7,875	217,875	150,000	26,100	176,100	360,000	33,975	393,975
2042	-	-	-	-	-	-	-	-	-	-	-	-	720,000	21,600	741,600	720,000	21,600	741,600
	<u>\$ 1,755,000</u>	<u>\$ 552,512</u>	<u>\$ 2,307,512</u>	<u>\$ 2,400,000</u>	<u>\$ 1,473,832</u>	<u>\$ 3,873,832</u>	<u>\$ 3,790,000</u>	<u>\$ 1,438,730</u>	<u>\$ 5,228,730</u>	<u>\$ 2,995,000</u>	<u>\$ 1,452,114</u>	<u>\$ 4,447,114</u>	<u>\$ 3,000,000</u>	<u>\$ 1,441,650</u>	<u>\$ 4,441,650</u>	<u>\$ 13,940,000</u>	<u>\$ 6,358,838</u>	<u>\$ 20,298,838</u>

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
SEPTEMBER 30, 2019**

	<b>Bond Issue</b>					
	<b>Series 2013</b>	<b>Series 2016</b>	<b>Series 2017</b>	<b>Series 2018</b>	<b>Series 2019</b>	<b>Total</b>
Interest Rate	3.00% - 4.00%	2.0% - 4.00%	2.125% - 4.00%	3.0% - 4.00%	3.00%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2033	9/1/2040	9/1/2040	9/1/2041	9/1/2042	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 1,845,000	\$ 2,425,000	\$ 3,920,000	\$ -	\$ -	\$ 8,190,000
Bonds Sold During the Current Fiscal Year	-	-	-	3,000,000	3,000,000	6,000,000
Refunded During the Current Fiscal Year	-	-	-	-	-	-
Retirements During the Current Fiscal Year- Principal	(90,000)	(25,000)	(130,000)	(5,000)	-	(250,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 1,755,000</u>	<u>\$ 2,400,000</u>	<u>\$ 3,790,000</u>	<u>\$ 2,995,000</u>	<u>\$ 3,000,000</u>	<u>\$ 13,940,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 67,486</u>	<u>\$ 88,838</u>	<u>\$ 125,882</u>	<u>\$ 92,826</u>	<u>\$ -</u>	<u>\$ 375,032</u>
Paying Agent's Name & Address:	<u>UMB Bank</u> <u>Austin, TX</u>	<u>UMB Bank</u> <u>Austin, TX</u>	<u>UMB Bank</u> <u>Austin, TX</u>	<u>UMB Bank</u> <u>Austin, TX</u>	<u>UMB Bank</u> <u>Austin, TX</u>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Park &amp; Recreation</u>	<u>Refunding Bonds</u>			
Amount Authorized by Voters	\$ 41,060,000	\$ 5,250,000	\$ 61,590,000			
Amount Issued	<u>15,040,000</u>	<u>-</u>	<u>190,000</u>			
Remaining To Be Issued	<u>\$ 26,020,000</u>	<u>\$ 5,250,000</u>	<u>\$ 61,400,000</u>			

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

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2019:	<u>\$ 449,274</u>
Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt:	<u>\$ 882,558</u>

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS  
SEPTEMBER 30, 2019**

	Amounts					Percent of Fund Total Revenues				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
<b>GENERAL FUND REVENUES:</b>										
Property taxes, including penalties	\$ 388,987	\$ 379,114	\$ 275,661	\$ 244,824	\$ 157,425	21.2%	23.1%	19.3%	19.4%	15.2%
Service revenues	1,154,752	971,212	842,381	682,722	584,149	63.0%	59.1%	59.0%	53.8%	56.2%
Tap connection / inspection fees	239,994	268,437	300,436	275,548	116,351	13.1%	16.3%	21.0%	21.7%	11.2%
Interest and other	49,020	24,941	10,292	4,954	1,450	2.7%	1.5%	0.7%	0.4%	0.1%
Developer advance	-	-	-	60,671	180,000	-	-	-	4.7%	17.3%
<b>TOTAL GENERAL FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>1,832,753</b>	<b>1,643,704</b>	<b>1,428,770</b>	<b>1,268,719</b>	<b>1,039,375</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>GENERAL FUND EXPENDITURES:</b>										
Current:										
Garbage expenditures	174,958	142,308	107,604	81,614	69,707	9.5%	8.7%	7.5%	6.4%	6.7%
Repairs/maintenance	86,781	73,933	98,378	62,275	45,985	4.7%	4.5%	6.9%	4.9%	4.4%
Operations/management fee	116,718	100,214	81,103	66,012	56,288	6.4%	6.1%	5.7%	5.2%	5.4%
Inspection/review fees	58,938	63,306	66,795	68,635	22,648	3.2%	3.9%	4.7%	5.4%	2.2%
Director fees, including payroll taxes	5,975	5,652	6,298	6,298	3,391	0.3%	0.3%	0.4%	0.5%	0.3%
Legal fees	56,424	45,570	43,167	39,833	28,397	3.1%	2.8%	3.0%	3.1%	2.7%
Engineering fees	16,926	16,646	14,068	11,906	11,313	0.9%	1.0%	1.0%	0.9%	1.1%
Audit fees	13,150	12,850	12,500	12,000	11,750	0.7%	0.8%	1.0%	0.9%	1.1%
Bookkeeping fees	26,350	26,000	25,650	26,000	25,300	1.4%	1.6%	1.8%	2.0%	2.4%
Financial advisor fees	585	691	648	783	633	0.0%	0.0%	0.0%	0.1%	0.1%
Tax appraisal/collection	2,202	2,354	1,729	1,600	1,106	0.1%	0.1%	0.1%	0.1%	0.1%
Insurance	5,204	5,200	4,148	4,480	4,364	0.3%	0.3%	0.3%	0.4%	0.4%
Other consulting fees	10,759	-	-	1,350	-	0.6%	-	-	0.1%	-
Bank fees	27,457	23,102	-	-	-	1.5%	1.4%	-	-	-
Public notice	7,054	3,854	-	-	-	0.4%	0.2%	-	-	-
Other	1,176	2,450	22,637	16,642	13,232	0.1%	0.2%	1.6%	1.3%	1.3%
Operating transfer	564,940	728,688	477,267	567,825	454,663	30.8%	44.3%	33.4%	44.9%	43.8%
<b>TOTAL GENERAL FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>1,175,597</b>	<b>1,252,818</b>	<b>961,992</b>	<b>967,253</b>	<b>748,777</b>	<b>64.0%</b>	<b>76.2%</b>	<b>67.4%</b>	<b>76.2%</b>	<b>72.0%</b>
<b>EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES &amp; OTHER FINANCING SOURCES OVER / (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ 657,156</b>	<b>\$ 390,886</b>	<b>\$ 466,778</b>	<b>\$ 301,466</b>	<b>\$ 290,598</b>	<b>36.0%</b>	<b>23.8%</b>	<b>32.6%</b>	<b>23.8%</b>	<b>28.0%</b>
<b>DEBT SERVICE FUND REVENUES:</b>										
Property taxes, including penalties	\$ 455,408	\$ 211,417	\$ 205,430	\$ 109,309	\$ 115,882	52.2%	38.2%	99.1%	35.8%	99.6%
Interest	13,195	7,157	1,853	802	436	1.5%	1.3%	0.9%	0.3%	0.4%
Bond proceeds, net	404,630	334,823	-	195,137	-	46.3%	60.5%	-	63.9%	-
<b>TOTAL DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>873,233</b>	<b>553,397</b>	<b>207,283</b>	<b>305,248</b>	<b>116,318</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>DEBT SERVICE FUND EXPENDITURES:</b>										
Tax appraisal/collection	2,581	1,311	1,292	712	465	0.3%	0.2%	0.6%	0.2%	0.7%
Financial advisor fees	686	385	484	348	813	0.1%	0.1%	0.2%	0.1%	0.4%
Bond principal	250,000	240,000	115,000	110,000	80,000	28.6%	43.4%	55.5%	36.0%	68.8%
Bond interest	375,032	263,381	161,724	108,467	75,186	42.9%	47.6%	78.0%	35.5%	64.6%
Fiscal agent fees and other	2,000	1,400	800	400	3,100	0.3%	0.2%	0.4%	0.2%	2.7%
<b>TOTAL DEBT SERVICE FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>630,299</b>	<b>506,477</b>	<b>279,300</b>	<b>219,927</b>	<b>159,564</b>	<b>72.2%</b>	<b>91.5%</b>	<b>134.7%</b>	<b>72.0%</b>	<b>137.2%</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE REVENUES &amp; OTHER FINANCING SOURCES OVER / (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ 242,934</b>	<b>\$ 46,920</b>	<b>\$ (72,017)</b>	<b>\$ 85,321</b>	<b>\$ (43,246)</b>	<b>27.8%</b>	<b>8.5%</b>	<b>(34.7)%</b>	<b>28.0%</b>	<b>(37.2)%</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,071</b>	<b>927</b>	<b>762</b>	<b>554</b>	<b>479</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,064</b>	<b>920</b>	<b>752</b>	<b>549</b>	<b>472</b>					

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2019**

Complete District Mailing Address: 100 Congress Ave., Ste 1300, Austin, TX 78701

District Business Telephone Number: (512) 435-2300

Submission Date of the most recent District  
Registration Form TWC Sections 36.054 & 49.054): November 8, 2019

Limits on Fees of Office that a Director may receive  
during a fiscal year: (Set by Board Resolution  
TWC Section 49.060) \$7,200

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimbursements	Title at Year End
<u><b>Board Members:</b></u>				
G. Crockett Camp	(Elected) 11/8/2016 - 11/3/2020	\$ 150	\$ -	President
Kari Ann Johnson	(Elected) 11/4/2018 - 11/6/2022	\$ 1,200	\$ -	Vice-President
Jeff Nebrat	(Elected) 11/4/2018 - 11/6/2022	\$ 1,200	\$ -	Secretary
Nicholas Whittaker	(Elected) 11/8/2016 - 11/3/2020	\$ 450	\$ -	Asst. Secretary
Keith E. Young	(Elected) 11/8/2016 - 11/3/2020	\$ 2,550	\$ -	Asst. Secretary
<u><b>Consultants:</b></u>				
Crossroads Utility Services LLC	11/11/2010	\$ 187,183	\$ -	Operator
Armbrust & Brown, PLLC	11/26/2002	\$ 62,158	\$ -	Attorney
		\$ 90,706	\$ -	Bond Related Services
McCall Parkhurst & Horton PLLC	11/26/2002	\$ 95,197	\$ -	Bond Counsel
Schroeder Engineering Co.	11/26/2002	\$ 11,280	\$ -	Engineer
		\$ 48,516	\$ -	Bond Related Services
Bott & Douthitt, PLLC	7/1/2010	\$ 26,350	\$ 324	District Accountant
Public Finance Group LLC	5/12/2014	\$ 2,160	\$ -	Financial Advisor
		\$ 151,947	\$ -	Bond Related Services
McCall Gibson Swedlund Barfoot PLLC	8/10/2009	\$ 13,150	\$ -	Auditor
		\$ 20,000	\$ -	Bond Related Services
Travis County Tax Collector	7/14/2003	\$ 1,736	\$ -	Tax Collector

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



# **OTHER SUPPLEMENTARY INFORMATION**



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**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
OSI-1. PRINCIPAL TAXPAYERS  
SEPTEMBER 30, 2019**

Taxpayer	Type of Property	Tax Roll Year		
		2019	2018	2017
KB Home Lone Star Inc.	Real Land & Improvements	\$ 8,098,605	\$ 6,249,291	\$ 3,792,514
IBC Partners Ltd.	Real Land & Improvements	3,418,010	3,418,010	3,429,286
Presidential Meadows LP	Real Land & Improvements	1,650,449	2,708,509	4,800,722
Lion Capital LLC	Real Land & Improvements	1,299,490	1,251,339	499,511
GFAA Partners Inc.	Real Land & Improvements	797,316	779,359	779,414
Homeowner	Real Land & Improvements	564,401	-	-
Homeowner	Real Land & Improvements	430,914	417,925	397,732
Presidential Glen Ltd.	Real Land & Improvements	425,656	425,656	425,656
American Homes 4 Rent	Real Land & Improvements	357,935	358,472	318,738
Homeowner	Real Land & Improvements	327,476	-	-
Homeowner	Real Land & Improvements	-	304,704	-
Homeowner	Real Land & Improvements	-	304,163	-
Dinsmore Living Trust	Real Land & Improvements	-	-	339,052
Homeowner	Real Land & Improvements	-	-	270,195
<b>Total</b>		<b>\$ 17,370,252</b>	<b>\$ 16,217,428</b>	<b>\$ 15,052,820</b>
Percent of Assessed Valuation		<b>8.3%</b>	<b>9.6%</b>	<b>12.8%</b>

**COTTONWOOD CREEK  
MUNICIPAL UTILITY DISTRICT NO. 1  
OSI-2. ASSESSED VALUE BY CLASSIFICATION  
SEPTEMBER 30, 2019**

Type of Property	Tax Roll Year					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 195,783,515	93.5%	\$ 161,387,042	95.2%	\$ 111,631,593	94.6%
Vacant Lot	6,811,337	3.3%	3,300,990	1.9%	3,156,473	2.7%
Rural Land Non-Qualified	3,837,680	1.7%	4,895,740	2.9%	5,375,328	4.6%
Commercial Real Property	2,441,871	1.2%	2,375,763	1.4%	1,124,479	1.0%
Commercial Personal Property	479,270	0.2%	407,545	0.2%	356,355	0.3%
Residential Inventory	7,158,506	3.4%	7,412,753	4.4%	4,693,098	4.0%
Totally Exempt Property	17,181,276	8.1%	16,020,115	9.5%	15,176,805	12.9%
Less: Adjustments	(24,370,329)	-11.4%	(26,343,729)	-15.5%	(23,501,715)	-20.1%
Total Taxable	<u>\$ 209,323,126</u>	<u>100.0%</u>	<u>\$ 169,456,219</u>	<u>100.0%</u>	<u>\$ 118,012,416</u>	<u>100.0%</u>

**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Certificates, assuming no material changes in facts or law.]*

**COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX REFUNDING BONDS, SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,650,000**

**AS BOND COUNSEL FOR THE COTTONWOOD CREEK MUNICIPAL UTILITY DISTRICT NO. 1** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on March 3, 2020, authorizing the issuance of the Bonds and the pricing certificate executed by the pricing officer as authorized in the order (collectively, the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of Public Finance Partners LLC, and on certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.





**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

**APPENDIX C**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

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

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100

