

OFFICIAL STATEMENT DATED OCTOBER 16, 2019

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: Insured BAM S&P “AA” (stable outlook)

Underlying Rating: Moody’s “A2”

See “MUNICIPAL BOND RATINGS” AND “MUNICIPAL BOND INSURANCE” herein.

*IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON THE OWNERS THEREOF. SEE “TAX MATTERS” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.*

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.

**\$7,325,000**

**Harris County Municipal Utility District No. 55**

**(A Political Subdivision of the State of Texas Located in Harris County, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**Dated: November 1, 2019**

**Due: February 1, as shown on inside cover page**

The \$7,325,000 Harris County Municipal Utility District No. 55 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) constitute obligations solely of Harris County Municipal Utility District No. 55 (the “District”) and are not obligations of the State of Texas (the “State”), Harris County, Texas, the City of Houston, Texas, or any entity other than the District. The Bonds will be issued in fully registered form only, in 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 November 13, 2019, and is payable February 1, 2020, and each August 1 and February 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 is BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”). The Bonds are being issued to (i) establish an escrow fund to currently refund a portion of the District’s outstanding Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Bonds”) and Unlimited Tax Bonds, Series 2013 (the “Series 2013 Bonds”) to achieve debt service savings, and (ii) to 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 **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. See “MUNICIPAL BOND RATINGS” and “MUNICIPAL BOND INSURANCE.”



**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS,  
REDEMPTION PROVISIONS and CUSIP NUMBERS**

**(see inside cover page)**

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are not subject to optional redemption prior to stated maturity, but may be subject to mandatory sinking fund redemption. This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

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

The Bonds are offered when, as and if issued by the District, subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas. The Bonds in definitive form are expected to be available for delivery through DTC, on November 13, 2019.

**Hutchinson, Shockey, Erley & Co.**

**MATURITY SCHEDULE**  
(Due February 1)

**CUSIP Prefix: 414912**

Due	Principal Amount <sup>(a)</sup>	Interest Rate	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>	Due	Principal Amount <sup>(a)</sup>	Interest Rate	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>
2020	\$ 50,000	2.0000%	1.4800%	VF9	2024	\$1,440,000	4.0000%	1.5700%	VK8
2021	470,000	2.0000%	1.4500%	VG7	2025	1,495,000	4.0000%	1.6400%	VL6
2022	510,000	3.0000%	1.4500%	VH5	2026	870,000	4.0000%	1.8100%	VM4
2023	1,570,000	3.0000%	1.5100%	VJ1	2027	920,000	4.0000%	1.8900%	VN2

- (a) Redemption Provisions: The Bonds are not subject to redemption prior to their stated maturity. See "THE BONDS - Redemption."
- (b) The initial yields for the Bonds will be priced are established by and are 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. Neither the Underwriter, the District, nor 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.

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

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

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

This Official Statement 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.

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."

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.

NEITHER THE DISTRICT, THE FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE 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.

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 has agreed, subject to certain conditions provided in the bond purchase agreement, to purchase the Bonds from the District for \$7,908,645.05 (an amount equal to the principal amount of the Bonds, plus a net original issue premium of \$653,232.55, less an Underwriter's discount of \$69,587.50).

The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

### **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."

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

## **MUNICIPAL BOND RATINGS**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy to be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "A2" to the Bonds.

An explanation of the significance of a rating may be obtained from 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.

## **MUNICIPAL BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as 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.

### **BUILD AMERICA MUTUAL ASSURANCE COMPANY**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27<sup>th</sup> Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

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

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

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$525 million, \$114 million and \$411 million, respectively.

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

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

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

*Additional Information Available from BAM*

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

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

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

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

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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 Issuer.....	Harris County Municipal Utility District No. 55 (the "District"), a political subdivision of the State of Texas, was created in 1974 by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT."
Location .....	The District is located in southeastern Harris County, approximately two miles west of the intersection of Interstate Highway 45 (the "Gulf Freeway") and FM 528. The District, situated wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas ("Houston") and within the boundaries of the Clear Creek Independent School District, lies approximately 20 miles south of Houston's central business district. The NASA Johnson Space Center and Baybrook Mall are located approximately four miles and one mile east of the District, respectively. See "THE DISTRICT - Location."
Status of Development.....	The District contains approximately 1,344.37 acres, of which approximately 1,228 acres are developable. As of August 28, 2019, approximately 1,194 acres (or 97% of the developable acreage within the District) have been developed with utility facilities as four residential subdivisions including: Heritage Park, Heritage Park Village, Heritage Park Pointe and Heritage Park Terrace Subdivisions, and contains 4,270 single family lots comprised of 4,269 single family homes completed (of which 4,227 are occupied, 42 are unoccupied and includes one home built on two lots), no homes under construction and no vacant developed lots. Additional development includes two apartment developments totaling 1,096 apartment units (of which 1,055 units are occupied), two neighborhood shopping centers, and twelve other retail or service establishments. There are also three churches, two elementary schools and a senior high school, none of which are subject to taxation. Approximately 20 acres of commercial property remains vacant of taxable improvements. The remaining 18 acres of land are proposed for single family residential development. See "THE DISTRICT – Status of Development of the District."

### THE BONDS

Description.....	The Bonds in the aggregate principal amount of \$7,325,000 mature serially in varying amounts on February 1 of each of the years 2020 through 2027 in the principal amounts set forth on the inside cover page hereof. Interest accrues from the date of delivery, currently anticipated to be November 13, 2019, at the rates per annum set forth on the inside cover page hereof and is payable February 1, 2020 and each August 1 and February 1 thereafter until maturity. 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 Bonds are not subject to redemption prior to their stated maturities. 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 upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See "TAXING PROCEDURES." <b>The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas; Harris County, Texas; the State of Texas; or any entity other than the District.</b> See "THE BONDS - Source of and Security for Payment" and "INVESTMENT CONSIDERATIONS."
Payment Record .....	The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds – Table 6."
Authority for Issuance.....	The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapter 1207 of the Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District, and an order adopted by the Board of Directors of the District authorizing the issuance of the Bonds and a pricing certificate to be executed by the pricing officer as authorized 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 together with lawfully available funds of the District, if any, will be used to (i) establish an escrow fund to currently refund a portion of the District's Unlimited Tax Refunding Bonds, Series 2012 and Unlimited Tax Bonds, Series 2013 and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."
Bonds Authorized But Unissued.....	At elections held within the District on August 31, 1974, January 6, 1979, October 24, 1992, November 13, 1993, December 5, 1998, May 12, 2007, and May 4, 2019, the voters within the District approved the issuance of \$96,440,000 in unlimited tax bonds for water, wastewater and drainage facilities of which \$41,600,000 remains authorized but unissued. Additionally, at the election held in the District on May 12, 2007, the voters within the District also approved \$5,900,000 in unlimited tax bonds for the acquisition and construction of parks and recreational facilities, none of which remains authorized but unissued. Additionally, the District may issue refunding bonds which increase the principal amount of the outstanding bonds based on such election. See "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized but Unissued – Table 5" and "THE BONDS."
Municipal Bond Ratings and Bond Insurance.....	Standard & Poor's Rating Service, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy to be issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "A2" to the Bonds.
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in "TAX MATTERS" herein.
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 2019 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

#### **INCLEMENT WEATHER/HURRICANE HARVEY**

General.....	The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.
Impact on District.....	<p>The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-Year Flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to Si Environmental (the "Operator"), there were no interruptions of water and sewer service as a result of Hurricane Harvey. According to BGE, Inc. (the "Engineer"), the District's system did not sustain any material damage as a result of Hurricane Harvey. To the knowledge of the District, no homes or other improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.</p> <p>If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.</p>
Bond Counsel.....	Norton Rose Fulbright US LLP, Houston, Texas.
Underwriter's Counsel .....	McCall, Parkhurst & Horton L.L.P., Austin, Texas.
Financial Advisor .....	Public Finance Group LLC, Austin, Texas.



Verification Agent..... Public Finance Partners LLC, Minneapolis, Minnesota.  
Paying Agent/Registrar ..... BOKF, NA, Dallas, Texas.  
Escrow Agent..... BOKF, NA, Dallas, Texas.

**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 Taxable Assessed Valuation	\$ 949,765,029 <sup>(a)</sup>
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 13,860,000 <sup>(b)</sup>
Ratio of Gross Debt to 2019 Taxable Assessed Valuation	1.46%
2019 Tax Rate	
Debt Service	\$ 0.4000
Maintenance	-
<b>Total 2019 Tax Rate</b>	<u>\$ 0.4000</u> <sup>(c)</sup>
Debt Service Fund Balance (as of August 31, 2019)	\$ 4,387,153 <sup>(d)</sup>
Percentage of current tax collections (Tax Years 1997-2019)	99.96% <sup>(e)</sup>
Percentage of total tax collections (Tax Years 1997-2019)	99.96% <sup>(e)</sup>
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2020-2027, inclusive)	\$ 1,924,092
Tax Rate Required to pay Average Requirement based upon the 2019 Taxable Assessed Valuation at 95% collections	\$0.22 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2022)	\$ 2,370,381
Tax Rate Required to pay Maximum Requirement based upon the 2019 Taxable Assessed Valuation at 95% collections	\$0.27 /\$100 AV
Number of Connections as of August 20, 2019	
Single Family - Occupied	4223
Single Family - Unoccupied	42
Multi-family (1,055 units occupied out of 1,096 total multi-family units)	18
Commercial	52
Other (Irrigation, Rental and District Meters)	<u>46</u>
<b>Total Number of Active Connections</b>	4,381
Estimated Population as of August 20, 2019	17,418 <sup>(f)</sup>

(a) Assessed valuation of the District as of January 1, 2019 as certified by the Harris County Appraisal District ("HCAD"). Includes \$857,527,534 in certified value and \$92,237,495 in HCAD's opinion of uncertified value under review. No tax will be levied on said uncertified value until it is certified by HCAD. See "TAXING PROCEDURES."

(b) Includes the Bonds, but excludes the Refunded Bonds defined herein.

(c) The District levied a 2019 tax rate of \$0.40 per \$100 assessed valuation.

(d) Unaudited, as of August 31, 2019. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

(e) See "TAX DATA – Tax Collections – Table 10."

(f) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied apartment unit. See "THE DISTRICT – Multi-family Development."

**OFFICIAL STATEMENT**  
**relating to**  
**\$7,325,000**  
**Harris County Municipal Utility District No. 55**  
**(A Political Subdivision of the State of Texas Located in Harris County, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 55 (the “District”) of its \$7,325,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”).

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

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 Norton Rose Fulbright US LLP, 1301 McKinney, Suite 5100, Houston, Texas 77010, upon payment of duplication costs.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the 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’s undertakings to provide certain information on a continuing basis.

**PLAN OF FINANCING**

**PURPOSE**

At elections held within the District on August 31, 1974; January 6, 1979; October 24, 1992; November 13, 1993; December 5, 1998, May 12, 2007, and May 4, 2019, the District’s voters authorized the issuance of an aggregate principal amount of \$96,440,000 of unlimited tax bonds for the construction of the District’s water, sanitary sewer and drainage system, and \$5,900,000 of unlimited tax bonds for the construction of park and recreational facilities. To date, the District has issued twenty installments of unlimited tax bonds to acquire water, sanitary sewer and drainage system and, park and recreational facilities in the aggregate principal amount of \$60,740,000, of which \$41,600,000 in unlimited tax bonds remains authorized but unissued. After the issuance of the Bonds, the District will have the following unlimited tax bonds outstanding: \$5,230,000 Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Bonds”); \$8,800,000 Unlimited Tax Bonds, Series 2013 (the “Series 2013 Bonds”); \$6,100,000 Unlimited Tax Refunding Bonds, Series 2016 (the “Series 2016 Bonds”); and \$7,325,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”). The District reserves the right to issue the remaining \$41,600,000 authorized but unissued bonds. Under Texas Law, the District may issue bonds to refund outstanding unlimited tax bonds in an amount not exceeding the principal amount of the refunded bonds (ignoring premiums which may be required to accomplish the refunding) In addition, the District has voted authority to exceed such principal amount without decreasing the voted amount of its bonds for water, wastewater, and drainage facilities. See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued” and “THE BONDS.”

The Bonds are being issued to achieve a debt service savings in the years 2020 through 2027, inclusive, by refunding \$7,610,000 of the District’s outstanding Unlimited Tax Refunding Bonds, Series 2012 and Unlimited Tax Bonds, Series 2013 (collectively, the “Refunded Bonds”). See “Sources and Uses of Funds” herein.

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## THE REFUNDED BONDS

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

Year	Series 2012	Series 2013	Total
2019	\$ -	\$ -	\$ -
2020	-	-	-
2021	500,000	-	500,000
2022	550,000	-	550,000
2023	795,000	825,000	1,620,000
2024	620,000	875,000	1,495,000
2025	645,000	900,000	1,545,000
2026	-	925,000	925,000
2027	-	975,000	975,000
	<u>\$ 3,110,000</u>	<u>\$ 4,500,000</u>	<u>\$ 7,610,000</u>
Redemption Date:	12/18/2019	12/18/2019	

## THE REMAINING OUTSTANDING BONDS

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

Year	Series 2012 <sup>(a)</sup>	Series 2013 <sup>(b)</sup>	Series 2016 <sup>(c)</sup>	The Bonds	Total
2020	\$ 475,000	\$ 725,000	\$ 725,000	\$ 50,000	\$ 1,975,000
2021	-	750,000	750,000	470,000	1,970,000
2022	-	800,000	770,000	510,000	2,080,000
2023	-	-	500,000	1,570,000	2,070,000
2024	-	-	510,000	1,440,000	1,950,000
2025	-	-	530,000	1,495,000	2,025,000
2026	-	-	-	870,000	870,000
2027	-	-	-	920,000	920,000
	<u>\$ 475,000</u>	<u>\$ 2,275,000</u>	<u>\$ 3,785,000</u>	<u>\$ 7,325,000</u>	<u>\$ 13,860,000</u>

(a) Unlimited Tax Refunding Bonds, Series 2012

(b) Unlimited Tax Bonds, Series 2013

(c) Unlimited Tax Refunding Bonds, Series 2016

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## ESCROW AGREEMENT

The principal of and interest due on a portion of the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and direct obligations of the United States of America and/or open market securities, to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, N.A., dba Bank of Texas, Dallas, Texas (the "Escrow Agent"). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter the District will deposit with the Escrow Agent cash and direct obligations of the United States in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

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 maturities 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 direct obligations of the United States 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 Orders authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, 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.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

## 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	\$7,325,000.00
Original Issue Premium	<u>653,232.55</u>
Total Sources of Funds	\$7,978,232.55
Uses of Funds:	
Escrow Deposit	\$7,708,250.97
Costs of Issuance	197,283.49
Underwriters' Discount	69,587.50
Deposit to Bond Fund	<u>3,110.59</u>
Total Uses of Funds	\$7,978,232.55

## THE BONDS

### GENERAL DESCRIPTION

The Bonds will bear interest from the date of delivery, currently anticipated to be November 13, 2019, and will mature on February 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 February 1, 2020 and each August 1 and February 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 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 ("DTC"), New York, New York, 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 BOKF, NA, Dallas, Texas (the "Paying Agent").

If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the city in which the Place of Payment is located, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. Principal of and

interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK – ENTRY- ONLY SYSTEM.”

## **REDEMPTION**

**Redemption** . . . The Bonds are not subject to redemption prior to their stated maturity.

**Notice of Redemption** . . . Notice of redemption shall be mailed by the Paying Agent/Registrar in the name and at the expense of the District, not less than 30 days prior to the redemption date, to each Registered Owner of Bonds to be redeemed. All notices shall state:

1. the redemption date,
2. the redemption price,
3. the principal amount and identification (by CUSIP number (if obtained for the Bonds), stated maturity, interest rate, dated date, and, in case of partial redemption within a stated maturity, the respective Bond numbers and principal amounts) of Bonds to be redeemed,
4. that on the redemption date the redemption price of each of the Bonds to be redeemed will become due and payable and that interest thereon shall cease to accrue from and after said date, and
5. that the Bonds to be redeemed are to be surrendered for payment of the redemption price at the place of payment, and the address of such place of payment. The notice of redemption must state if redemption is conditioned on issuance of refunding bonds or other obligations to pay the redemption price.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof) and upon any partial redemption of any such Bonds the same shall be surrendered in exchange for one or more new Bonds of the same stated maturity in authorized denominations for the unredeemed portion of principal. Bonds (or portions thereof as aforesaid) for whose redemption and payment provision is made in accordance with the Bond Order will cease to bear interest from and after the redemption date.

## **DTC REDEMPTION PROVISION**

The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of 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/Registrar. Neither the District nor the Paying Agent/Registrar 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**

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. See “BOOK – ENTRY – ONLY SYSTEM.”

**Payment**...The principal and Redemption Price of the Bonds is payable upon surrender at the designated paying office of the Paying Agent/Registrar (the “Place of Payment”). If the specified date of any payment of principal (or Redemption Price) of or interest on the Bonds shall be a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the city in which the Place of Payment is located, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Interest on any Bond which is payable, and which is paid or duly provided for on or within 10 days after, any Interest Payment Date shall be paid to the Person in whose name such Bond (or one or more Predecessor Bonds evidencing the same debt) is registered at the close of business on the Regular Record Date for such interest, which shall be the 15<sup>th</sup> day (whether or not a business day) of the calendar month next proceeding such Interest Payment Date. Any interest on any Bond which is payable on, but is not paid or duly provided for on or within 10 days after, any Interest Payment Date (herein referred to as “Defaulted Interest”) shall forthwith cease to be payable to the Holder on the relevant Regular Record Date solely by virtue of such Holder having been such Holder; and such Defaulted Interest shall be paid to the Person in whose name such Bond (or one or more respective Predecessor Bonds) is registered at the close of business on a special record date (the “Special Record Date”) for the payment of such Defaulted Interest. The Regular Record Date for the Bonds for the interest payable on any Interest Payment Date is the 15<sup>th</sup> day (whether or not a business day) of the calendar month next preceding such Interest Payment Date.

**Registration**...The District shall cause to be kept at the Place of Payment a register (herein referred to as the “Security Register”) in which the Paying Agent/Registrar shall provide for the registration of the Bonds and registration of transfers of the Bonds. Upon surrender for transfer of

any Bond at the Place of Payment, the District will execute, and the Paying Agent/Registrar will authenticate and deliver it, in the name of the designated transferee or transferees, one or more new fully registered Bonds of the same Stated Maturity, of any authorized denominations, and of a like aggregate principal amount.

At the option of the Registered Owner, Bonds may be exchanged for other Bonds of the same stated maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the Place of Payment. Whenever any Bonds are so surrendered for exchange, the District will execute, and the Paying Agent/Registrar will register and deliver, the Bonds which the Registered Owner of Bonds making the exchange is entitled to receive.

Every Bond presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed, by the Registered Owner thereof or his attorney duly authorized in writing.

No service charge may be made to the Registered Owner for any registration, transfer, or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.

Neither the District nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond during a period beginning 15 days prior to a Redemption Date hereunder and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

#### **AUTHORITY FOR ISSUANCE**

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

#### **SOURCE OF AND SECURITY FOR PAYMENT**

For each year while any Bond is Outstanding and the District remains in existence, the District will levy and assess a continuing direct annual ad valorem tax upon each \$100 valuation of 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, (i) to pay interest on the Bonds as it becomes due, (ii) to provide for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date, and (iii) to pay the expenses of assessing and collecting such tax.

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

#### **PAYMENT RECORD**

The District has previously issued twenty series of new money bonds and eight series of refunding bonds, including the Bonds which are listed under "FINANCIAL STATEMENT – Outstanding Bonds – Table 6." The District has never defaulted on the timely payment of the principal of or interest on its bonds.

#### **FLOW OF FUNDS**

To provide for the payment of the principal (and Redemption Price) of, interest on, and Paying Agent fees in respect of the Bonds, the District shall maintain a special account (herein the "Bond Fund") on its books of account as part of its interest and sinking fund. The District shall credit to the Bond Fund: (i) all receipts of taxes (and penalty and interest thereon) levied to provide for the payment of principal of and interest on (or fees and expenses of the Paying Agent with respect to) the Bonds, (ii) all earnings from the investment of amounts credited to the Bond Fund, and (iii) any other funds of the District deposited to the Bond Fund to pay principal (or redemption price) of or interest on the Bonds.

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

#### **DEFEASANCE OF OUTSTANDING BONDS**

Any Bond shall be deemed to be paid and shall no longer be considered to be a Bond within the meaning of the Bond Order when payment of the principal of and interest on such Bond to the stated maturity thereof or (if notice of redemption shall have been duly given, irrevocably provided for, or waived as provided in the Bond Order) to the Redemption Date shall have been made or shall have been provided for by deposit with the Paying Agent for such payment (or with any other bank or trust company which has agreed to hold the same for such purpose) (1) money sufficient to make such payment, (2) Governmental Obligations certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment, provided that all expenses

pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Paying Agent (and to such other bank or trust company).

If such deposit is made for some but not all of the Bonds then outstanding, the District shall designate the stated maturities of Bonds for which such deposit is made. If such deposit shall be sufficient to provide for the payment of the principal of and interest on some but not all outstanding bonds of a particular stated maturity so designated, the Paying Agent shall select the outstanding bonds of such stated maturity with respect to which such deposit is made by such random method as the Paying Agent/Registrar shall deem fair and appropriate and which may provide for the selection of portions (equal to \$5,000 or any integral multiple thereof) of the principal amount of Bonds of a denomination larger than \$5,000.

“Governmental Obligations: means (1) direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, or (2) obligations authorized under Texas law from time to time for discharge and final payment of political or governmental subdivisions which, at the time of deposit have been assigned ratings in the highest rating category of either Moody’s Investors Service or Standard & Poor’s Rating Service, or any successor to the bond operations of either of such corporations, but in the case of both Clauses (1) and (2) only if such obligations may not be called for redemption prior to maturity.

#### **PAYING AGENT/REGISTRAR**

The District reserves the right in the Bond Order to remove the Paying Agent/Registrar without cause. Every successor Paying Agent/Registrar must at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner affected by the change, which notice shall also give the address of the new Paying Agent/Registrar, which shall be the designated Place of Payment.

#### **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 15th calendar day of the month (whether or not a business day) next preceding such interest payment date.

#### **ISSUANCE OF ADDITIONAL DEBT**

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”) and, in the case of bonds payable from taxes, the District’s voters, as necessary, to provide and maintain improvements and facilities authorized by law, including water, sewer and drainage facilities, and park and recreational facilities, roads, and fire-fighting facilities. See “THE DISTRICT – General.” The District’s voters have authorized the issuance of a total of \$96,440,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, of which \$41,600,000 remains authorized but unissued. See “Future Debt.”

The District’s voters at the election held on May 12, 2007, authorized the issuance of \$20,000,000 principal amount of unlimited tax bonds for the acquisition of water and sewer facilities, of which \$9,400,000 remains authorized but unissued in bonds for the acquisition and construction of water and sewer facilities.

The District’s voters at an election held on May 4, 2019, authorized the issuance of \$32,200,000 principal amount of unlimited tax bonds for the acquisition and construction of water, wastewater, and storm drainage facilities, all of which remains authorized but unissued.

Voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes, and the District may issue refunding bonds to refund its outstanding unlimited tax bonds. The District also has the right to enter into certain other obligations including the issuance of revenue bonds and notes, bond anticipation notes and tax anticipation notes without voter approval. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. In the opinion of the District’s engineer, voter-authorized bonds may be required for future maintenance of the District’s infrastructure and surface water conversion costs. See “INVESTMENT CONSIDERATIONS.”



## **LOST, STOLEN, MUTILATED OR DESTROYED BONDS**

If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the District and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss or theft of any Bond, and (2) there is delivered to the District and the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the District or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the District shall execute and upon its request the Paying Agent/Registrar shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of the same Stated Maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the District in its discretion may pay such Bond instead of issuing a new Bond.

Upon the issuance of any new Bond under the Bond Order, the District or the Paying Agent/Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

Every new Bond issued pursuant to the Bond Order in lieu of any mutilated, destroyed, lost or stolen Bond shall constitute an original additional contractual obligation to the District.

## **LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

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

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

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

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

The District has not review the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

## **REMEDIES IN EVENT OF DEFAULT**

The Bond Order provides that if the District shall default in the payment of the principal of or interest on the Bonds when due or in the observance or performance of any of the covenants, conditions, or obligations set forth in the Order, any Bondholder shall, in addition to all other rights and remedies of such owner of Bonds, be entitled to a writ on mandamus issued by a court of proper jurisdiction compelling and requiring the Board and the other officers of the District to make such payment or to observe and perform such covenant, obligation, or condition.

The Bond Order provides no additional remedies to a Bond owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the Bond owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District’s obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year to year by the Bond owners.

No statutes waive the District’s sovereign immunity from suit for money damages. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District’s public purpose property. If such suit were allowed and a judgment obtained, the Bond owners could not foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds or otherwise satisfy such judgment. In addition, the enforceability of the rights and remedies of the Bond owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

## **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 failure to comply with such covenant will not adversely affect the excludability of interest on any Bond from the gross income of the owner thereof for federal income tax purposes, and thereafter such covenant will no longer be binding upon the District to the extent described in such opinion.

## **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.

## **ANNEXATION BY THE CITY OF HOUSTON**

The District lies entirely within the extraterritorial jurisdiction of the City. Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without consent of the District or its residents; however, under HB 347, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held 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. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control or knowledge of the annexation plans of the City, therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "THE BONDS – Source of and Security of Payments."

## **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 system with the water 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 consolidate its water system with that of any other district.

## **ALTERATION OF BOUNDARIES**

In certain circumstances, under Texas law the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory; and 2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. The District would be required to obtain the consent of the City before adding any land in the City's extraterritorial jurisdiction or corporate limits. No representation is made concerning the likelihood that the District would effect any further change in its boundaries.

## **NO ARBITRAGE**

The District will certify, as of the date of the Bonds are delivered and sold for, that based upon all facts or estimates now known or reasonably expected to be in existence on the date the Bonds are delivered, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees and agents of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of the proceeds of the Bonds, and take such other and further actions and follow such procedures as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

## **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 the Attorney General 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 bondholder, from time to time and at any time amend the Bond Order in any manner not detrimental to the interests of the bondholders, including the curing of any ambiguity, inconsistency, or formal defect or omission. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of Bond Order *except* that, notwithstanding the foregoing, without the consent of the holders of all of the affected outstanding Bonds, no such amendment, addition, or rescission may (1) change the stated maturity of the Bonds or any installment of interest thereon, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, 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 or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, (3) modify the provisions of the proviso to the definition of the term "Outstanding" in the Bond Order, or (4) modify any of the provisions of the section of the Bond Order summarized in this paragraph, except to increase the percentage provided hereby or to provide that certain other provisions of the Bond Order cannot be modified or waived. Any consent to any amendment of the Bond Order by the holder of any Bond will bind every future holder of the same Bond and the holder of every Bond issued upon transfer or in lieu thereof or in exchange therefor, in respect of anything done or suffered to be done by the District in reliance thereon, whether or not notation of such action is made upon such Bond.

In addition, a state, consistent with federal law, may within 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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, each 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 the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All 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/Registrar, 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 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered 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 neither the District nor the Financial Advisor take any 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, Harris County, Texas, the City of Houston, Texas, or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, 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.

### **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 as well as the value of multifamily and commercial improvements. The market value of such properties is related to general economic conditions affecting the demand for and taxable value of residences. Demand for such properties 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 in which the District is located. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

*District Substantially Developed:* Presently, approximately 97% of the developable acreage within the District has been developed. Three tracts totaling 20 acres of anticipated commercial property remain unimproved. The remaining 18 acres of land are proposed for single family residential development. The District cannot predict with certainty if any homes or additional commercial improvements will be constructed in the District.

*Impact on District Tax Rates:* Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2019 Taxable Assessed Valuation is \$949,765,029 (Assessed valuation of the District as of January 1, 2019, as certified by HCAD. Includes \$857,527,534 in certified value and \$92,237,495 in HCAD's opinion of uncertified value under review. No tax will be levied on said uncertified value until it is certified by HCAD. See "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Requirement will be \$2,370,381 (2022) and the Average Requirement will be \$1,924,092 (2020 through 2027, inclusive). Assuming (1) no increase or decrease from the 2019 Taxable Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.27 and \$0.22 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. See "DEBT SERVICE REQUIREMENTS SCHEDULE – Table 3" and "TAX DATA - Tax Adequacy for Debt Service."

## **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.

## **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. Any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **INCLEMENT WEATHER; RECENT EXTREME WEATHER EVENTS**

The District is located approximately 30 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-Year Flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, there were no interruptions of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the District's system did not sustain any material damage as a result of Hurricane Harvey. To the knowledge of the District, no homes or other improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

## **SPECIFIC FLOOD TYPE RISKS**

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

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

## **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 earlier due date of such principal by reason of mandatory or optional redemption, 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 redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds which is recovered by the District from the owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be

made by the bond insurer (the “Bond Insurer”) at such time and in such amounts as would have been due absent such redemption by the District 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 without appropriate consent. The Bond Insurer may direct and must consent to any remedies that the Paying Agent exercises and the Bond Insurer’s consent may be required in connection with amendments to the Bond Order.

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 by the Paying Agent pursuant to the Bond Order. 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.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its ability to pay claims which is predicated upon a number of factors that 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.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of the Bond Insurer to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given.

#### **REGISTERED OWNERS’ REMEDIES**

Bond owners are entitled under Texas Law to seek a writ of mandamus to compel the District to perform its obligations under the Bond Order. Such remedy would have to be exercised upon each separate default and could prove costly, time-consuming and difficult to enforce. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, Bond owners. The Bond Order does not provide for acceleration of maturity of the Bonds upon any default. Sovereign immunity, public property, bankruptcy, reorganization and other similar laws affecting the enforcement of creditor’s rights generally may also limit the rights and remedies of the Bond owners and the enforceability of the Bonds. See “THE BONDS – Remedies in Event of Default.”

#### **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 dismissed 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 municipal utility 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.

#### **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**

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. See "THE BONDS – Tax 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."

## **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 that may require or prohibit certain activities that affect the environment, such as:

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

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

*Air Quality Issues/Greenhouse Gas Issues...* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston Bay area ("HGB area") – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 "eight-hour" ozone standards (the "1997 Ozone Standards"). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas's redesignation demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion ("ppb") to 75 ppb (the "2008 Ozone Standard"), and designated the HGB area as a marginal ozone nonattainment area, effective July 12, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA's 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area's 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 ppb to 70 ppb (the "2015 Ozone Standard"). On May 1, 2018, the EPA designated the HGB area as nonattainment for the 2015 Ozone Standard, and submitted this ruling for publication in the Federal Register. The HGB area nonattainment designation will become effective sixty days after publication in the Federal Register. A designation of nonattainment for ozone or any pollutant can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with nonattainment designation. This designation could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA's ozone standards for the HGB area, the TCEQ has established a state implementation plan ("SIP") setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB area's economic growth and development.

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

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final sixty (60) days after its publication in the Federal Register.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of “waters of the United States.” The proposed definition outlines six (6) categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for sixty (60) days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

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

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop and implement the necessary 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 in order to comply with the MS4 Permit.

## **FUTURE DEBT**

The District has reserved in the Bond Order the right to issue the remaining \$41,600,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$41,600,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District’s engineer, the remaining authorization should be sufficient to complete build out of the District. See “THE SYSTEM”.

## **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.

## **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.

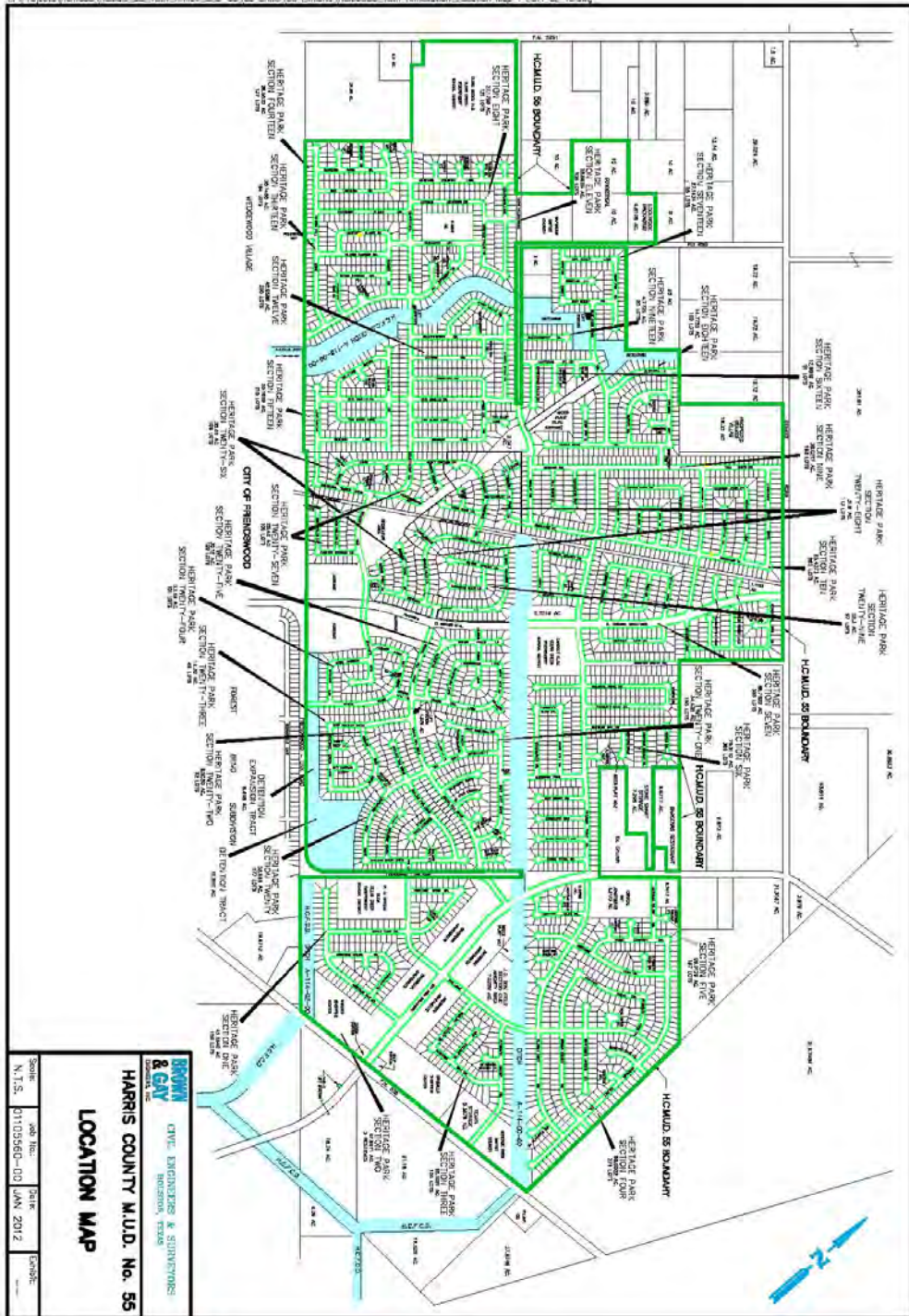


Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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.

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# LOCATION MAP



## THE DISTRICT

### GENERAL

The District was created by the TCEQ, in 1974, and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ.

### MANAGEMENT OF THE DISTRICT

**Board of Directors:** The District is governed by a board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the second Saturday in May in each even numbered year. All of the directors listed below reside in the District.

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires May</u>
Robert Squires	President	35 years	2022
Sam Longoria	Vice President	25 years	2022
Gabriel Mendez	Secretary	5 years	2022
Malcolm Swinney	Assistant Secretary	4 years	2020
Richard Klenk	Treasurer/Investment Officer	20 years	2020

### CONSULTANTS

**Tax Assessor/Collector:** Land and improvements in the District are being appraised by the Harris County Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. Equi-Tax, Inc. ("Equi-Tax") currently serves the District in this capacity under contract.

**Bookkeeper:** ETI Bookkeeping Services acts as bookkeeper for the District and currently performs similar services for approximately 21 other special districts.

**Operator:** The District contracts with Si Environmental, LLC ("Si") to operate and maintain the District's system. See "THE SYSTEM - Water, Sanitary Sewer and Drainage System."

**Engineer:** The District's consulting engineer is BGE Inc. (the "Engineer").

**Auditor:** McCall Gibson Swedlund Barfoot PLLC acts as auditor for the District (the "Auditor").

**Bond Counsel:** The District has engaged Norton Rose Fulbright US LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. Norton Rose Fulbright US LLP also acts as General Counsel to the District on matters not related to the issuance of bonds and is compensated based on time charges actually incurred.

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

### LOCATION

The District originally contained 650.9 acres and presently encompasses approximately 1,387 acres due to annexation of land in 1974 (20.4 acres), 1978 (24 acres), 1982 (147.7 acres), 1985 (19.5 acres), 1986 (35.4 acres), 1991 (59 acres), 1993 (4.8 acres), 1994 (103.7 acres), 1995 (19.6 acres), 1998 (74 acres), 1999 (140.6 acres), 2000 (2.7 acres), 2005 (4.8 acres), 2008 (18.3 acres), 2009 (7.3 acres), 2011 (2.7 acres and 8.97 acres), 2013 (3.75 acres), 2014 (19.53 acres), and 2015 (0.80 acres and 19.27 acres). The District, which is located within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Clear Creek Independent School District, is located approximately 20 miles southeast of the central business district of Houston in the southeastern portion of Harris County, Texas. The National Aeronautics and Space Administration ("NASA") Johnson Space Center and Baybrook Mall are located approximately four miles and one mile east of the District, respectively. The District is bounded on the south by FM 528, on the north by FM 2351, and is bisected east to west by Bay Area Boulevard. Principal access to the District is provided by Interstate Highway 45 (the "Gulf Freeway") and Bay Area Boulevard.

### STATUS OF DEVELOPMENT OF THE DISTRICT

Development of the District began in 1974 and approximately 1,369 acres of the approximate 1,387 acres located within the District have been developed with water, sanitary sewer and drainage facilities.

The chart below reflects the status of single family development as of August 28, 2019:

Section	Acreage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
<b>A. Single Family Developed with Utility Facilities</b>					
Heritage Park Section 1	45.26	159	159	-	-
Heritage Park Section 3	25.10	104	103 <sup>(a)</sup>	-	-
Heritage Park Section 4	69.00	274	274	-	-
Heritage Park Section 5	50.40	187	187	-	-
Heritage Park Section 6	77.98	368	368	-	-
Heritage Park Section 7	88.78	355	355	-	-
Heritage Park Section 8	27.18	121	121	-	-
Heritage Park Section 9	38.02	183	183	-	-
Heritage Park Section 10	63.44	262	262	-	-
Heritage Park Section 11	25.61	108	108	-	-
Heritage Park Section 12	42.96	205	205	-	-
Heritage Park Section 13	35.75	164	164	-	-
Heritage Park Section 14	28.06	127	127	-	-
Heritage Park Section 15	50.17	218	218	-	-
Heritage Park Section 16	12.66	51	51	-	-
Heritage Park Section 17	21.21	96	96	-	-
Heritage Park Section 18	37.95	169	169	-	-
Heritage Park Section 19	4.77	20	20	-	-
Heritage Park Section 20	38.34	177	177	-	-
Heritage Park Section 21	32.53	153	153	-	-
Heritage Park Section 22	6.50	32	32	-	-
Heritage Park Section 23	19.32	89	89	-	-
Heritage Park Section 24	23.29	102	102	-	-
Heritage Park Section 25	30.12	122	122	-	-
Heritage Park Section 26	35.50	108	108	-	-
Heritage Park Section 27	25.42	105	105	-	-
Heritage Park Section 28	31.90	114	114	-	-
Heritage Park Section 29	22.30	97	97	-	-
<b>Subtotal - Single Family Developed with Utilities</b>	<b>1,009.52</b>	<b>4,270</b>	<b>4,269</b>	<b>-</b>	<b>-</b>
<b>B. Non-Residential / Commercial / Other Acreage</b>					
Proposed Single Family	18.33				
Commercial	135.07				
R.O.W.	15.43				
Multi-Family	34.99				
Parks and Opens Spaces	13.00				
Easements	83.27				
Schools	59.60				
Churches	14.40				
Other	4.10				
<b>Subtotal - Other</b>	<b>378.19</b>				
<b>Total District Acreage</b>	<b>1,387.71</b>				

(a) Includes one house built on two lots.

## RESIDENTIAL DEVELOPMENT

Heritage Park has been platted as twenty-nine sections including Heritage Park Sections 1 and 3 through 29, which are predominantly single family and Heritage Park, Section 2 which consists of multi-family and commercial reserves. Twenty-nine sections have been developed with water, sanitary sewer, drainage facilities and street paving. As of August 28, 2019, the District contains approximately 4,270 developed lots comprised of 4,269 single family homes completed (of which 4,227 are occupied, 42 are unoccupied and includes one home built on two lots), no homes under construction and no vacant developed lots. Eighteen developable acres have not yet been developed.

## **MULTI-FAMILY DEVELOPMENT**

Portions of the District adjacent to Bay Area Boulevard have been developed for multifamily usage. Multi-family improvements include Baybrook Village and Crystal Bay Apartments. Baybrook Village is a 776-unit project with apartment buildings located on each side of Bay Area Boulevard. The project office currently reports an occupancy rate of approximately 98%. Crystal Bay Apartments contain 320 rental units, and its leasing office reports an occupancy rate of approximately 92%.

## **COMMERCIAL DEVELOPMENT**

Commercial development within the District is mainly in the areas adjacent to Bay Area Boulevard and FM 528. These improvements include neighborhood shopping centers, convenience stores and free-standing businesses which serve the residential development in the District and the surrounding area. Baywood Plaza is a neighborhood shopping center located at the western portion of the intersection of Bay Area Boulevard and FM 528. This center includes a Texas School of Business, approximately twelve retail and service establishments, a free-standing fast food restaurant, and a gas station.

A major shopping center is located on the eastern portion of the intersection of Bay Area Boulevard and FM 528. In addition to Spec's Wines, Spirits and Finer Foods, it contains approximately ten retail and service establishments including a hair salon, restaurant, doctor's office, a car wash and dry cleaners.

Other businesses in the District include an automobile body repair shop, a tire store, two convenience stores, Barcenas Restaurant, Store Smart Storage, numerous small retail stores and a child care center. In addition to the commercial development described above, three churches, two elementary schools and a senior high school (none of which are subject to taxation) are presently located in the District.

## **FUTURE DEVELOPMENT**

With the exception of 18 acres, all of the developable property within the District has been developed with utility facilities including street paving. Therefore, the only remaining development expected to occur within the District consists of utilities, street paving and homes to be constructed on the undeveloped 18 acres and the approximate 20 acres of vacant commercial reserves. The District cannot predict with certainty if any homes or commercial improvements will be constructed in the District.

## **THE SYSTEM**

### **WATER, SANITARY SEWER AND DRAINAGE SYSTEM**

In addition to the Bonds, the District has previously issued twenty series of new money bonds and eight series of refunding bonds (including the Bonds). Proceeds from sales of such previously issued new money bonds, together with certain nonreimbursable developer contributions, were used to provide water production facilities, wastewater treatment capacity, and underground water distribution, sewer collection, and drainage facilities (the "System") to serve approximately 1,369 acres of land in the District. The District's System has been designed in conformity with the current requirements of the City of Houston, Harris County, Texas, Harris County Flood Control District, and the TCEQ.

**Source of Water Supply:** The District currently owns and operates two water plants. Water Plant No. 1 contains a 1,345 gallon-per-minute ("gpm") well, four booster pumps with total capacity of 6,000 gpm, a 210,000 gallon ground storage tank, a 840,000 gallon ground storage tank, a 20,000 gallon hydropneumatic tank, and emergency generator. Water Plant No. 2 includes a 1,545 gpm well and auxiliary power. The District has also constructed a 500,000 gallon elevated storage facility. According to the Engineer, the present ground water supply facilities together with the District's existing surface water capacity, described below, are sufficient to serve the District at ultimate development under present land use projections.

The Harris/Galveston Subsidence District (the "Subsidence District") requires that the District restrict its groundwater withdrawal to 15% of its total water usage. The District has converted its water supply system from a groundwater only system to a combination surface water and groundwater system and has purchased 2,975,000 gallons per day ("gpd") in the Southeast Regional Water Purification Plant (the "Southeast Regional Water Plant") through the City of Houston. With proceeds from previous bonds, the District has funded its pro-rata share of the expansion of the Southeast Water Plant from 80 MGD to 120 MGD. This increased the District's surface water capacity by 1.4875 MGD. Of this amount, the District has sold 500,000 gpd to the City of Friendswood and 500,000 gpd to Clear Lake City Water Authority. After the expansion and after the sale of capacity to the City of Friendswood and Clear Lake City Water Authority, the District has capacity of 3,462,500 gpd. The surface water capacity assures that the District has adequate water supply even during high demand periods. The District has chosen to supply its entire water demand with surface water at a conservative design average daily flow of 455 gpd/ESFC. Peaking demands from the District will be supplied by the District's two ground water wells. The Southeast Regional Water Plant is located adjacent to Ellington Field approximately four miles from the District. The source of water for the Southeast Regional Water Plant is raw water from the Trinity River transmitted through the Coastal Water Authority's conveyance facilities to the Southeast Regional Water Plant.

In addition to its capital costs, the District shares in the operating and maintenance expenses of the Southeast Regional Water Plant on a pro rata basis (based on the amount of water conveyed to the District) with the City of Houston and other parties with contractual shares in the Southeast Regional Water Plant. The City of Houston is planning a major capital project entailing the replacement of a large diameter water distribution line. Per the current cost sharing agreement, the District's share of the total \$117.8 million estimated construction cost will be approximately \$9.1 million.

## WASTEWATER TREATMENT

Permanent wastewater treatment for the District is provided by the Blackhawk Regional Wastewater Treatment Plant (the "Blackhawk Plant"). The Blackhawk Plant contains a total of 9.25 million gpd capacity, and the District has purchased 1.965 million gpd capacity allocation in the facility. The capacity is adequate to serve development within the District. The Engineer has stated that, under present land use plans, the District's allocation in the Blackhawk Plant is sufficient to accommodate the wastewater treatment requirements for the District at full build-out.

## 100-YEAR FLOOD PLAIN

According to the Engineer, approximately 26 acres located in the District are within the 100-year flood plain as illustrated by the Flood Insurance Rate Maps, 48201C1065L and 48201C1070L, June 18, 2007 Revision, published by the Federal Emergency Management Agency. Proceeds from sale of the Outstanding Bonds have been used to construct certain channel improvements and a detention facility which fulfills the District's current drainage requirements.

## WATER AND WASTEWATER OPERATIONS

### RATE AND FEE SCHEDULE – TABLE 1

The Board of Directors of the District establishes rates and fees for water and sewer service, subject to change from time to time. The rates are subject to change from time to time. The following rates were approved on November 17, 2015.

<u>Monthly Service Charge</u>	
All Connections	\$23.60 per connection
Apartment Unit	\$23.60 per apartment unit
<u>Monthly Water Service Rates</u>	
All single family home connections:	
0-6,000 gallons	\$1.25/1,000 gallons
6,001-10,000 gallons	\$1.40/1,000 gallons
10,001-20,000 gallons	\$1.80/1,000 gallons
Over 20,000 gallons	\$3.10/1,000 gallons
<u>Monthly Sewer Service Rates</u>	
All connections per 1,000 gallons of water used	
0-6,000 gallons	\$2.30/1,000 gallons
Over 6,000 gallons	\$2.85/1,000 gallons
<u>Monthly Fire Protection Rate</u>	
Per equivalent connection	\$8.05
<u>Monthly Emergency Medical Service Rate</u>	
Per home	\$3.40
<u>Monthly Law Enforcement Service Rate</u>	
Per home	\$4.20

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## WATERWORKS AND SEWER OPERATING 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 Ended					
	8/31/2019 <sup>(a)</sup>	12/31/2018 <sup>(b)</sup>	12/31/2017 <sup>(b)</sup>	12/31/2016 <sup>(b)</sup>	12/31/2015 <sup>(b)</sup>	12/31/2014 <sup>(b)</sup>
<b>REVENUES</b>						
Service Charge	\$ 1,024,557	\$ 1,532,488	\$ 1,399,007	\$ 1,291,360	\$ 1,177,831	\$ 1,010,915
Water Service	342,704	601,060	510,785	418,152	417,462	444,937
Wastewater Service	618,012	943,288	944,841	800,899	747,394	650,015
Fire Fighting and Ambulance Service	521,035	774,628	796,116	779,823	765,260	746,988
Law Enforcement Service	182,584	272,606	275,356	274,374	267,946	271,458
Sales and Use Tax Revenue	80,074	117,957	100,794	105,780	105,259	102,984
Tap Connection and Inspection Fees	89,741	250	128,073	-	14,215	375
Penalty and Interest	36,944	62,174	58,752	56,544	77,524	76,547
Investment Revenues	23,541	15,158	3,517	1,708	431	452
Miscellaneous Revenues	9,687	183,240	94,858	59,523	72,574	99,159
<b>TOTAL REVENUES</b>	<b>\$ 2,928,879</b>	<b>\$ 4,502,849</b>	<b>\$ 4,312,099</b>	<b>\$ 3,788,163</b>	<b>\$3,645,896</b>	<b>\$ 3,403,830</b>
<b>EXPENDITURES</b>						
Audit Fees	\$ 17,800	\$ 17,800	\$ 17,800	\$ 17,250	\$ 17,000	\$ 17,250
Engineering Fees	44,482	54,759	68,188	59,065	61,656	49,022
Legal Fees	48,295	69,234	67,046	70,863	77,527	65,991
Other Consulting Fees	-	1,750	1,750	1,000	1,000	1,780
Purchased Water Service	307,708	291,695	394,639	301,425	251,404	212,945
Purchased Wastewater Service	463,713	635,241	780,954	733,047	875,040	1,134,011
Bookkeeping	13,990	19,769	18,544	18,213	18,184	17,940
Operations and Billing	283,420	343,406	332,919	320,908	338,446	354,968
Utilities	54,514	89,637	76,807	80,806	74,047	79,714
Repairs and Maintenance	1,036,759	637,915	433,263	541,811	419,801	696,134
Administrative Expenditures	63,645	150,285	142,367	138,621	142,909	127,045
Capital Outlay	-	-	-	-	129,225	-
Tap Connections	8,264	13,400	38,730	-	3,925	1,200
Law Enforcement	208,196	275,320	269,272	268,600	266,472	255,800
Fire Fighting	403,760	588,000	560,000	560,000	561,000	548,000
Emergency Medical Services	146,217	219,325	200,518	176,693	190,717	190,717
Other Expenditures	15,069	59,403	50,019	55,472	62,278	44,607
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,115,832</b>	<b>\$ 3,466,939</b>	<b>\$ 3,452,816</b>	<b>\$ 3,343,774</b>	<b>\$3,490,631</b>	<b>\$ 3,797,124</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ (186,953)</b>	<b>\$ 1,035,910</b>	<b>\$ 859,283</b>	<b>\$ 444,389</b>	<b>\$ 155,265</b>	<b>\$ (393,294)</b>
<b>Beginning Fund Balance</b>	<b>\$ 3,250,723</b>	<b>\$ 2,214,813</b>	<b>\$ 1,355,530</b>	<b>\$ 418,134</b>	<b>\$ 254,902</b>	<b>\$ 648,196</b>
<b>Plus / (Less): Fund Transfer</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>493,007</b>	<b>7,967</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 3,063,770</b>	<b>\$ 3,250,723</b>	<b>\$ 2,214,813</b>	<b>\$ 1,355,530</b>	<b>\$ 418,134</b>	<b>\$ 254,902</b>

(a) Unaudited. As of August 31, 2019. Represents eight (8) months of the District's current fiscal year.

(b) Audited.

**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**

**Harris County Municipal Utility District No. 55**

**\$7,325,000**

**Unlimited Tax Refunding Bonds, Series 2019**

**Dated Date: November 1, 2019**

**First Interest Payment Due: February 1, 2020**

Year Ending 31-Dec	Current Debt Service Requirement	Less Refunded Debt Service	The Bonds				Principal and Interest	Total Debt Service Requirements
			Principal (Due 2/01)	Interest (Due 2/01)	Interest (Due 8/01)	Total		
2020	2,343,127	291,494	50,000	56,723	130,400	187,123	237,123	2,288,757
2021	2,365,047	781,494	470,000	130,400	125,700	256,100	726,100	2,309,653
2022	2,427,125	810,494	510,000	125,700	118,050	243,750	753,750	2,370,381
2023	2,362,879	1,839,672	1,570,000	118,050	94,500	212,550	1,782,550	2,305,757
2024	2,181,260	1,657,138	1,440,000	94,500	65,700	160,200	1,600,200	2,124,322
2025	2,184,980	1,650,213	1,495,000	65,700	35,800	101,500	1,596,500	2,131,267
2026	982,500	982,500	870,000	35,800	18,400	54,200	924,200	924,200
2027	994,500	994,500	920,000	18,400	-	18,400	938,400	938,400
	<b><u>\$ 15,841,417</u></b>	<b><u>\$9,007,503</u></b>	<b><u>\$7,325,000</u></b>	<b><u>\$ 645,273</u></b>	<b><u>\$ 588,550</u></b>	<b><u>\$1,233,823</u></b>	<b><u>\$8,558,823</u></b>	<b><u>\$ 15,392,737</u></b>

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**FINANCIAL STATEMENT  
(Unaudited)**

**ASSESSED VALUE - TABLE 4**

2019 Taxable Assessed Valuation		\$ 949,765,029 <sup>(a)</sup>
Gross Debt Outstanding (after the issuance of the Bonds)		\$ 13,860,000 <sup>(b)</sup>
Ratio of Gross Debt to 2019 Taxable Assessed Valuation		1.46%
2019 Tax Rate		
	Debt Service	\$ 0.4000
	Maintenance	-
	<b>Total 2019 Tax Rate</b>	<b>\$ 0.4000 <sup>(c)</sup></b>
Debt Service Fund Balance (as of August 31, 2019)		\$ 4,387,153 <sup>(d)</sup>
Estimated Population as of August 20, 2019.....		17,418 <sup>(e)</sup>

Area of District: 1,344.37 acres

- (a) Assessed valuation of the District as of January 1, 2019 as certified by the Harris County Appraisal District ("HCAD"). Includes \$857,527,534 in certified value and \$92,237,495 in HCAD's opinion of uncertified value under review. No tax will be levied on said uncertified value until it is certified by HCAD. See "TAXING PROCEDURES."
- (b) Includes the Bonds, but excludes the Refunded Bonds.
- (c) The District levied a 2019 tax rate of \$0.4000 per \$100 assessed valuation.
- (d) Unaudited as of August 31, 2019. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (e) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied apartment unit. See "THE DISTRICT – Multi-family Development."

**UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED - TABLE 5**

Date of Authorization	Purpose	Authorized <sup>(a)</sup>	Issued to Date	Unissued
8/31/1974	Water and Sewer	\$ 11,700,000	\$ 11,700,000	\$ -
1/6/1979	Water and Sewer	8,300,000	8,300,000	-
10/24/1992	Water and Sewer	12,000,000	12,000,000	-
11/13/1993	Water and Sewer	3,000,000	3,000,000	-
12/5/1998	Water and Sewer	9,240,000	9,240,000	-
5/12/2007	Water and Sewer	20,000,000	10,600,000	9,400,000
5/4/2019	Water, Wastewater & Storm Drainage	32,200,000	-	32,200,000
5/12/2007	Park and Recreational Facilities	5,900,000	5,900,000	-
<b>Total</b>		<b>\$ 102,340,000</b>	<b>\$ 60,740,000</b>	<b>\$ 41,600,000</b>

- (a) The District has the authority to issue refunding bonds, which may increase the Outstanding Bonds. Under City of Houston Ordinances, including Ordinance No. 97-416, the District may not issue refunding bonds unless there is net present value savings in the District's debt service except with consent of the City or qualification under certain provisions governing economically stressed districts for which the District does not currently qualify.

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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>				
12/01/74	Water and Sewer	1974	\$ 1,925,000	\$ -
12/01/75	Water and Sewer	1975	250,000	-
02/01/77	Water and Sewer	1977	1,750,000	-
02/01/79	Water and Sewer	1979	2,000,000	-
06/01/80	Water and Sewer	1980	3,520,000	-
11/01/82	Water and Sewer	1982	875,000	-
07/01/84	Water and Sewer	1984	3,040,000	-
07/01/87	Water and Sewer	1987	1,500,000	-
11/01/88	Water and Sewer	1988A	1,495,000	-
02/01/90	Water and Sewer	1990	1,285,000	-
05/01/92	Water and Sewer	1992	1,425,000	-
04/01/94	Water and Sewer	1994	3,735,000	-
07/01/95	Water and Sewer	1995	885,000	-
12/01/98	Water and Sewer	1998	3,830,000	-
11/01/99	Water and Sewer	1999	4,255,000	-
12/01/01	Water and Sewer	2001	1,275,000	-
08/01/03	Water and Sewer	2003	2,750,000	-
09/01/05	Water and Sewer	2005	8,445,000	-
02/01/10	Park and Recreational Facilities	2010	5,900,000	-
10/01/13	Water, Wastewater & Storm Drainage	2013	10,600,000	2,275,000
	<b>Subtotal</b>		<b>\$ 60,740,000</b>	<b>\$ 2,275,000</b>
<b>B. Refunding Bonds</b>				
06/01/88	Refunding	1988	\$ 4,040,000	\$ -
09/01/89	Refunding	1989	2,940,000	-
04/01/93	Refunding	1993	7,880,000	-
12/01/01	Refunding	2001	2,060,000	-
03/01/04	Refunding	2004	8,770,000	-
06/01/11	Refunding	2011	5,230,000	-
02/01/12	Refunding	2012	6,100,000	475,000
02/01/16	Refunding	2016	6,770,000	3,785,000
11/13/19	Refunding	2019	7,325,000	7,325,000 <sup>(b)</sup>
	<b>Subtotal</b>		<b>\$ 51,115,000</b>	<b>\$ 11,585,000</b>
	<b>Total</b>		<b>\$111,855,000</b>	<b>\$ 13,860,000</b>

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

(b) The Bonds.

## CASH AND INVESTMENT BALANCES - TABLE 7 <sup>(a)</sup>

General Fund	\$ 2,973,897
Debt Service Fund	4,387,153 <sup>(b)</sup>
Capital Projects Fund	1,929,059

(a) Unaudited as of August 31, 2019. Includes cash and investments.

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

## INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law, particularly the Public Funds Investment Act, Texas Government Code Chapter 2256 (the "PFIA"), and in accordance with investment policies approved by the Board of Directors of the District. Both Texas law and the District's investment policies are subject to change.

### Authorized Investments

The District is authorized to invest in the following types of obligations, with certain restrictions (each an "Authorized Investment"): (1) obligations of the United States or its agencies and instrumentalities, certain U.S. Agencies, the State of Texas, and obligations insured by the Federal Deposit Insurance Corporation; (2) certain municipal securities; (3) certificates of deposit; (4) repurchase agreements; (5) securities lending programs; (6) bankers' acceptances; (7) commercial paper; (8) money market savings accounts; (9) mutual funds; (10) guaranteed investment contracts; (11) government investment pools; and (12) common trust funds. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. § 80b-1 et seq.) or with the Texas 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.

### Government Investment Pools

Government investment pools ("Pools") in Texas are established under the authority of the Interlocal Cooperation Act, Texas Government Code Chapter 791, and their membership is limited to governmental entities, such as the District. A Pool may only invest its funds in accordance with, and in investments authorized by, the PFIA. Typically, a Pool operates like a money market mutual fund and is required to mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. In addition to other provisions of the PFIA, the PFIA requires each Pool to: 1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

### Investment Practices

The PFIA contains many specific provisions in the areas of investment practices, management reports and establishment of appropriate policies, some of which are summarized herein. 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) a list of authorized investments for District funds, (B) the maximum allowable stated maturity of any individual investment, (C) the maximum dollar-weighted average maturity allowed for pooled fund groups, (D) methods to monitor the market price of investments acquired with public funds, (E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and (F) procedures to monitor rating changes in investments acquired with public funds. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment.

At least quarterly the District's investment officers must submit an investment report to the Board of Directors of the District 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 District's Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and

procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy, and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) 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 purchase agreement; (8) restrict the investment in no-load 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; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

#### **CURRENT INVESTMENTS - TABLE 8**

The District, as of August 31, 2019, was invested in TexPool, Money Market Accounts, and Certificates of Deposit. 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 investment, 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 the District has not issued securities, but rather it 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.

<b>Investment Value as of August 31, 2019</b>	
Cash	\$ 1,702,375
Money Market	1,878,078
TexPool	5,306,283
Certificates of Deposit	403,372
<b>Total Investment</b>	<b>\$ 9,290,108</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 subdivision overlapping the District are authorized by State law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of 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	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Harris County	\$ 2,042,497,125	9/30/2019	0.177%	\$ 3,618,823
Harris County Department of Education	6,320,000	9/30/2019	0.177%	11,195
Harris County Flood Control District	83,075,000	9/30/2019	0.181%	150,354
Harris County Hospital District	57,300,000	9/30/2019	0.190%	109,038
Harris County Toll Road <sup>(a)</sup>	-	9/30/2019	0.000%	-
Port of Houston Authority	593,754,397	9/30/2019	0.181%	1,074,747
Clear Creek Independent School District	1,019,030,000	9/30/2019	3.561%	36,290,818
<b>TOTAL ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 41,254,975</b>
The District <sup>(b)</sup>	\$ 13,860,000	11/13/2019	100.000%	\$ 13,860,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 55,114,975</b>
<b>Ratio of Estimated and Overlapping Debt to 2019 Taxable Assessed Valuation</b>				<b>5.80%</b>

(a) No outstanding debt due to self-supporting toll road system.

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

#### OVERLAPPING TAXES FOR 2018

Overlapping Entity	2018 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Harris County	Harris County
Harris County	\$0.418580	\$ 803
Harris County Department of Education	0.005190	10
Harris County Flood Control District	0.028770	55
Harris County Hospital District	0.171080	328
Port of Houston Authority	0.011550	22
Clear Creek Independent School District	1.400000	2,686
The District	<u>0.400000</u>	<u>767</u>
<b>Total</b>	<b>\$2.435170</b>	<b>\$ 4,671</b>

(a) Based upon the 2018 average single-family home value of \$191,822 as provided by HCAD. The District's 2019 average taxable single-family home value is \$208,010, as provided by HCAD. The District has levied a 2019 tax rate of \$0.4000 per \$100 of assessed valuation.

#### TAX DATA

#### CLASSIFICATION OF ASSESSED VALUATION - TABLE 9

Type of Property	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Land	\$ 177,151,804	18.91%	\$ 183,471,353	20.44%	\$ 181,175,214	20.74%
Improvements	751,322,982	80.19%	773,342,328	86.16%	748,072,371	85.64%
Personal Property	11,973,047	1.28%	12,972,710	1.45%	12,934,617	1.48%
Less: Exemptions	<u>(3,487,095)</u>	<u>-0.37%</u>	<u>(72,195,511)</u>	<u>-8.04%</u>	<u>(68,723,269)</u>	<u>-7.87%</u>
<b>Total</b>	<b>\$ 936,960,738</b>	<b>100.00%</b>	<b>\$ 897,590,880</b>	<b>100.00%</b>	<b>\$ 873,458,933</b>	<b>100.00%</b>

## 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 records provided by the District Tax Assessor/Collector. Reference is made to such records for further and more complete information. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending	
				Amount	%	Amount	%		
1997	\$ 331,891,080	\$ 0.66900	\$ 2,219,420	\$ 2,219,240	99.99%	\$ 2,219,240	99.99%	12/31/98	(b)
1998	353,746,080	0.66000	2,334,152	2,334,024	99.99%	2,334,024	99.99%	12/31/99	(b)
1999	384,043,700	0.63500	2,438,338	2,437,854	99.98%	2,437,854	99.98%	12/31/00	(b)
2000	414,440,940	0.60500	2,506,737	2,506,276	99.98%	2,506,276	99.98%	12/31/01	(b)
2001	456,438,060	0.58000	2,645,729	2,645,388	99.99%	2,645,388	99.99%	12/31/02	(b)
2002	469,115,040	0.55000	2,577,690	2,577,690	100.00%	2,577,690	100.00%	12/31/03	(b)
2003	501,682,910	0.52000	2,668,488	2,668,488	100.00%	2,668,488	100.00%	12/31/04	(b)
2004	531,127,200	0.52000	2,755,972	2,755,675	99.99%	2,755,675	99.99%	12/31/05	(b)
2005	551,180,691	0.52000	3,041,093	3,041,042	100.00%	3,041,042	100.00%	12/31/06	(b)
2006	605,412,584	0.52000	3,168,480	3,167,846	99.98%	3,167,846	99.98%	12/31/07	(b)
2007	603,922,244	0.52000	3,142,244	3,141,544	99.98%	3,141,544	99.98%	12/31/08	(b)
2008	650,305,017	0.40000	2,604,602	2,603,621	99.96%	2,603,621	99.96%	12/31/09	(b)
2009	648,093,039	0.40000	2,568,035	2,565,969	99.90%	2,565,969	99.90%	12/31/10	(b)
2010	647,844,299	0.40000	2,561,952	2,559,217	99.90%	2,559,217	99.90%	12/31/11	(b)
2011	641,690,232	0.40000	2,555,868	2,552,635	99.90%	2,552,635	99.90%	12/31/12	(b)
2012	637,311,992	0.40000	2,534,552	2,531,058	99.90%	2,531,058	99.90%	12/31/13	(b)
2013	641,203,901	0.40000	2,555,154	2,550,679	99.80%	2,550,679	99.80%	12/31/14	(b)
2014	685,596,565	0.40000	2,738,607	2,731,809	99.80%	2,731,809	99.80%	12/31/15	(b)
2015	736,569,259	0.40000	2,951,034	2,940,356	99.60%	2,940,356	99.60%	12/31/16	(b)
2016	810,924,190	0.40000	3,237,626	3,223,707	99.60%	3,223,707	99.60%	12/31/17	(b)
2017	873,458,933	0.40000	3,466,495	3,448,875	99.50%	3,448,875	99.50%	12/31/18	(b)
2018	897,590,880	0.40000	3,564,387	3,529,261	99.00%	3,535,872	99.00%	12/31/19	(c)
2019	949,765,029	0.40000	3,799,602	<i>In the process of collection</i>				12/31/20	(d)

(a) Assessed Valuation reflects the adjusted value at December 31<sup>st</sup> of each respective year as included in the audited financial statement.

(b) Audited.

(c) Unaudited. Reflects collections through August 31, 2019.

(d) Taxes are 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	\$ 0.4000	\$ 0.4000	\$ 0.4000	\$ 0.4000	\$ 0.4000
Maintenance and Operations	-	-	-	-	-
<b>Total</b>	<b>\$ 0.4000</b>	<b>\$ 0.4000</b>	<b>\$ 0.4000</b>	<b>\$ 0.4000</b>	<b>\$ 0.4000</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, the District levied a 2019 debt service tax rate of \$0.4000 per \$100 assessed valuation.

## MAINTENANCE TAX

The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District's voters. 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. To date, two elections have been held but both failed, thus no maintenance tax has been or may be levied.

## 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	2018	2017
Mosiac Baybrook One LP	Commercial Building	\$ 28,204,502	\$ 24,547,100	\$ 21,272,378
Mosaic Baybrook Two LP	Commercial Building	23,158,943	23,350,712	17,853,074
RFI Crystal Bay LLC	Investments	17,334,377	16,362,142	13,708,790
2300 Bay Area SP LLC	Land and Improvements	7,489,057	6,266,652	6,038,225
WFP Baymont LP	Land and Improvements	(a)	(a)	6,407,526
CenterPoint Energy Inc.	Electric Utility/Power Plant	4,066,120	5,335,140	5,241,090
Control Company	Shopping Center	(a)	(a)	(a)
Tarbert LLC	Investments	(a)	(a)	(a)
MDDS Properties LLC	Commercial Building	5,580,963	9,325,494	7,398,514
Storage Trust Properties LP	Storage Units/Warehouses	4,614,852	4,030,000	3,821,909
CSH 2016 2 Borrower LLC	Land and Improvements	(a)	3,956,529	4,012,352
Prosperity Plaza LP	Commercial Building	(a)	4,410,688	(a)
Bay 528 Plaza LLC	Shopping Center	4,715,854	6,879,723	(a)
CL Eldorado LLC	Commercial Building	(a)	(a)	2,460,849
<b>Total</b>		<b><u>\$ 95,164,668</u></b>	<b><u>\$ 104,464,180</u></b>	<b><u>\$ 85,753,858</u></b>
<b>Percent of Assessed Valuation</b>		<b>10.02%</b>	<b>11.64%</b>	<b>9.82%</b>

(a) 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 Taxable Assessed Valuation 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 Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2020 through 2027) .....	\$1,942,092
\$0.22 Tax Rate on 2019 Taxable Assessed Valuation of \$949,765,029 @ 95% collections produces .....	\$1,985,009
Maximum Annual Debt Service Requirements on the Bonds (2022).....	\$2,370,381
\$0.27 Tax Rate on 2019 Taxable Assessed Valuation of \$949,765,029 @ 95% collections produces .....	\$2,436,147

*[Remainder of this page intentional left blank]*

## DEBT SERVICE FUND MANAGEMENT INDEX

Debt Service Requirements for year ending 12/31/20.....	\$2,288,757 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of 8/31/19.....	\$4,387,153 <sup>(b)</sup>
2019 Tax Levy @ 95% collections produces .....	<u>3,609,107</u> <sup>(c)</sup>
Total Available for Debt Service.....	<u>\$7,996,260</u>

(a) Interest payments on the Bonds commences February 1, 2020.

(b) Unaudited, as of August 31, 2019. Represents debt service fund balance after all 2019 debt requirements have been paid.

(c) The District levied a 2019 debt service tax rate of \$0.40, collection of which is due with no penalty by January 31, 2020.

## TAXING PROCEDURES

### AUTHORITY TO LEVY TAXES

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

### PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT

Title I of the Texas Tax Code (the “Property Tax Code”) establishes an appraisal district and an appraisal review board in each county in the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, school districts, and conservation and reclamation districts such as the District that participate in the appraisal district and of the county. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. All taxing units within Harris County, including the District, are included in the Harris County Appraisal District (the “Appraisal District”). The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board. The District must use the appraisal roll as approved by the Harris County Appraisal Review Board to establish its tax roll and tax rate. The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

### 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. 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 household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. Partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran is 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. Additionally, a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of their residence homestead, effective for the tax years beginning on or after January 1, 2009. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old to the extent deemed advisable by the Board. For the 2018 tax year, the District has granted an exemption of \$40,000 of assessed valuation for persons 65 years of age and older and to individuals who are disabled. The District’s tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

**Residential Homestead Exemption:** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before June 1. The District has not adopted a general homestead exemption.

**Freeport Goods Exemption:** Article III, 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. A “Goods-In-Transit” exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-In-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-In-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. 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. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

## **TAX ABATEMENT**

Harris County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City (after annexation of the District), or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the 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 the terms of agreement. Effective September 1, 1999, the terms of the tax abatement agreements of the taxing jurisdiction are not required to be identical.

## **VALUATION OF PROPERTY FOR TAXATION**

Generally, all taxable property in the District must be appraised by Harris County Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either for replacement cost or the market data method of valuation may be used, whichever is appropriate.

Certain land may be appraised at less than market value under the Property Tax Code. A residence homestead is to be appraised solely on the basis of its value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of property. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Upon application of a landowner, land which qualifies as “open-space land” is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as “timber land” is appraised using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. Land which qualifies as an aesthetic management zone, critical wildlife management zone, or streamside management zone or is being regenerated for timber production for 10 years after harvest is valued at one-half that amount. In the case of both open space and timber land valuations, if the use of land changes, an additional tax is generally imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park and scenic land. Also, houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner’s business, upon application of the owner.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least one every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

## **DISTRICT AND TAXPAYER REMEDIES**

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner’s protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review

Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

## **LEVY AND COLLECTION OF TAXES**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. Those taxes billed at a later date that become delinquent on or after June 1 will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code make 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.

## **ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE**

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent (8%). If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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 of are classified as "Special Taxing Units." Districts that have financed, completed and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact of each classification has on the ability of a district to increase its operation 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 an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

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

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

reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district that year, subject to certain homestead exemptions.

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

#### **DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES**

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "FINANCIAL STATEMENT – Overlapping Taxes for 2018". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection and Foreclosure Remedies."

#### **REAPPRAISAL OF PROPERTY AFTER DISASTER**

The Property Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. The District did not authorize reappraisal following Hurricane Harvey.

#### **DELINQUENT TAX PAYMENTS FOR DISASTER AREAS**

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

#### **THE EFFECT OF FIRREA ON TAX COLLECTIONS OF THE DISTRICT**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states that (i) no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed. To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

### **LEGAL MATTERS**

#### **LEGAL OPINIONS**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount,

upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Norton Rose Fulbright US LLP, Houston, Texas ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS – Tax Exemption." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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.

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

#### **NO MATERIAL ADVERSE CHANGE**

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

#### **NO LITIGATION CERTIFICATE**

The District will furnish to the Underwriters 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 AND YIELDS**

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, and compliance with City of Houston Ordinance 97-416.

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

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

### **TAX MATTERS**

#### **TAX EXEMPTION**

The delivery of the Bonds is subject to an opinion of Bond Counsel, to the effect that, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder, interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local government units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on the, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), S corporations with "subchapter C" earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

#### **TAX ACCOUNTING TREATMENT OF PREMIUM ON CERTAIN BONDS**

The initial public offering price of the Bonds maturing in the years 2020 through 2027, inclusive, (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

#### **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.

#### **QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, Section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to Section 291 of the Code.

#### **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. 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 financial statements 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 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 December 31. Accordingly, it must provide updated information by June 30 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 shall notify the MSRB via EMMA, in a timely manner not in excess of 10 business days, of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of holders 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, which shall occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority

rights, or other similar terms of a financial obligation of the District, 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.

For these purposes, (a) any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of “*Financial Obligation*” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The District shall notify the MSRB via EMMA, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the Order.

#### **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 and will be available to the public free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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 shall be obligated to observe and perform the covenants specified in the Bond Order for so long as, but only for so long as, the District remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the District in any event will give the notice required by the Order of any Bond calls and defeasance that cause the District to be no longer such an “obligated person.”

The provisions of the Order are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in the provisions of the Bond Order summarized in this section, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to the Bond Order. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

Under no circumstances shall the District be liable to the holder or beneficial owner of any bond or any other person, in contract or tort, for damages resulting in whole or in part from any breach by the District, whether negligent or without fault on its part, of any covenant specified in the order, but every right and remedy of any such person, in contract or tort, for or on account of any such breach shall be limited to an action for mandamus or specific performance.

No default by the District in observing or performing its obligations under the provisions of the Bond Order summarized in this section shall constitute a breach of or default under the Bond Order for purposes of any other provision of the Bond Order.

Nothing in the Bond Order is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

The provisions of the Bond Order may be amended by the District 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 or business of the District, but only if (1) the provisions of the Bond Order, as so amended, would have permitted an underwriter to purchase or sell Bonds in a primary offering of the Bonds in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Holders of a majority in aggregate principal amount of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. If the District so amends the provisions of the Bond Order, the District shall include with any amended financial information or operating data next provided in accordance with the Bond Order an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The District may also repeal or amend the provisions of the Bond Order if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the provisions of the Bond Order in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in a primary offering of the Bonds.

## **COMPLIANCE WITH PRIOR UNDERTAKINGS**

During the last five years, the District is in compliance with all material provisions of its continuing disclosure undertaking 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.

## **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" – District Engineer;  
"FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District,  
"FINANCIAL STATEMENT – Assessed Value" – Equi-Tax, Inc. (with information provided by Harris County Appraisal District);  
"INVESTMENT AUTHORITY AND PRACTICES OF THE DISTRICT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor;  
"THE SYSTEM - Water and Wastewater Operations" – Records of the District;  
"TAX DATA" – Tax Assessor and Collector;  
"THE DISTRICT - Management of the District" - District Directors;  
"PROJECTED DEBT SERVICE REQUIREMENTS SCHEDULE – Table 3" - Financial Advisor;  
"THE BONDS" (except "Payment Record", "DTC Redemption Provisions") – Norton Rose Fulbright US LLP;  
"TAXING PROCEDURES" - Norton Rose Fulbright US LLP  
"LEGAL MATTERS" - Norton Rose Fulbright US LLP  
"TAX MATTERS" - Norton Rose Fulbright US LLP  
"CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - Norton Rose Fulbright US LLP

### **CONSULTANTS**

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

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 BGE, Inc., and has been included in reliance upon the authority of said firm in the field of civil engineering.

Auditor: The District's audited financial statements for the fiscal year ended December 31, 2018 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 December 31, 2018.

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 Harris County Appraisal District, in reliance upon their 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 Equi-Tax in reliance upon their 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 Initial Purchaser 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 Initial Purchaser 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 Initial Purchaser a supplement to this Official Statement which corrects such representation to the 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 Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser 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 a period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser 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 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, 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 Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the “end of the underwriting period” is the responsibility of the Initial Purchaser.

#### **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 issued bonds or has assets or receipts in excess of \$100,000. Prior to selling bonds or having assets over \$100,000, the District is allowed under State law to file a financial report in lieu of an audit. 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 charges prescribed by the Texas Facilities Commission.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 55, as of the date shown on the first page hereof.

## PHOTOGRAPHS

The following photographs were taken in the District. The homes and commercial establishments 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 Harris County Municipal Utility District No. 55 for the fiscal year ended December 31, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2018**





**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2018**



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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Harris County Municipal Utility District No. 55  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 55 (the "District"), as of and for the year ended December 31, 2018, 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 December 31, 2018, 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 Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

April 16, 2019





# **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED DECEMBER 31, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 55's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the District's financial statements.

#### **USING THIS ANNUAL REPORT**

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

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

#### **FUND FINANCIAL STATEMENTS**

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

# **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED DECEMBER 31, 2018**

#### **FUND FINANCIAL STATEMENTS (Continued)**

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

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

#### **NOTES TO THE FINANCIAL STATEMENTS**

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

#### **OTHER INFORMATION**

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

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$14,945,732 as of December 31, 2018.

A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 13,535,078	\$ 12,249,930	\$ 1,285,148
Capital Assets (Net of Accumulated Depreciation)	22,432,866	22,548,530	(115,664)
Total Assets	\$ 35,967,944	\$ 34,798,460	\$ 1,169,484
Long -Term Liabilities	\$ 14,315,000	\$ 16,123,073	\$ 1,808,073
Other Liabilities	3,116,635	3,274,880	158,245
Total Liabilities	\$ 17,431,635	\$ 19,397,953	\$ 1,966,318
Deferred Inflows of Resources	\$ 3,590,577	\$ 3,490,155	\$ (100,422)
Net Position:			
Net Investment in Capital Assets	\$ 8,577,856	\$ 7,132,409	\$ 1,445,447
Restricted	3,117,153	2,563,130	554,023
Unrestricted	3,250,723	2,214,813	1,035,910
Total Net Position	\$ 14,945,732	\$ 11,910,352	\$ 3,035,380

The following table provides a summary of the District's operations for the years ending December 31, 2018, and December 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,480,090	\$ 3,238,331	\$ 241,759
Charges for Services	4,218,850	4,139,633	79,217
Other Revenues	380,031	230,607	149,424
Total Revenues	\$ 8,078,971	\$ 7,608,571	\$ 470,400
Expenses for Services	5,043,591	5,141,998	98,407
Change in Net Position	\$ 3,035,380	\$ 2,466,573	\$ 568,807
Net Position, Beginning of Year	11,910,352	9,443,779	2,466,573
Net Position, End of Year	\$ 14,945,732	\$ 11,910,352	\$ 3,035,380

# HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE YEAR ENDED DECEMBER 31, 2018

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

The District's combined fund balances as of December 31, 2018, were \$8,764,607, an increase of \$751,821 from the prior year.

The General Fund fund balance increased by \$1,035,910, primarily due to service revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$532,873 primarily due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance decreased by \$816,962, primarily due to capital outlay being paid from prior year bond proceeds.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$154,424 more than budgeted revenues. Actual expenditures were \$249,746 less than budgeted expenditures. See the budget to actual comparison.

#### CAPITAL ASSETS

Capital assets as of December 31, 2018, amount to \$22,432,866 (net of accumulated depreciation). These capital assets include land, buildings and equipment as well as the water and wastewater systems. Capital asset events during the current fiscal year included the completion of St. Lawrence lift station rehabilitation and capacity purchase at Blackhawk regional wastewater treatment plant. Construction in progress includes ground storage tank replacement and valve repairs.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 130,464	\$ 130,464	\$
Construction in Progress	222,075	63,032	159,043
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	259,500	278,543	(19,043)
Water System	2,952,088	3,237,406	(285,318)
Wastewater System	10,439,479	10,570,673	(131,194)
Drainage System	3,816,864	3,914,430	(97,566)
Investment in Wastewater Treatment Plant	2,132,986	1,748,097	384,889
Investment in Surface Water Capacity	2,479,410	2,605,885	(126,475)
Total Net Capital Assets	<u>\$ 22,432,866</u>	<u>\$ 22,548,530</u>	<u>\$ (115,664)</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**CAPITAL ASSETS (Continued)**

Additional information on the District's capital assets can be found in Note 6 of this report.

**LONG-TERM DEBT ACTIVITY**

As of December 31, 2018, the District had total bond debt payable of \$16,000,000. The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt Payable, January 1, 2018	\$ 18,425,000
Less: Bond Principal Paid	<u>2,425,000</u>
Bond Debt Payable, December 31, 2018	<u>\$ 16,000,000</u>

The District's Series 2012 Refunding Bonds and Series 2013 Bonds carry an underlying rating of "A3" by Moody's. The Series 2012 Refunding Bonds carry an insured rating from Moody's of "A2" by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2013 Bonds carry an insured rating from Standard and Poor's of "AA" by virtue of bond insurance issued by Build America Mutual. The Series 2016 Refunding Bonds are not rated. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The ratings above reflect all rating changes of bond insurers through December 31, 2018.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 55, c/o Norton Rose Fulbright US LLP, 1301 McKinney Avenue, Suite 5100, Houston, TX 77010-3095.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash	\$ 1,845,098	\$ 637,280
Investments	1,254,511	3,635,907
Receivables:		
Property Taxes		2,602,318
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Uncollectible Accounts of \$5,500)	401,717	
Accrued Interest	1,446	1,388
Due from Other Funds	27,988	
Prepaid Costs	119,218	
Due from Other Governmental Units	25,685	
Advance for Regional Wastewater Treatment Plant Operations	178,756	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 3,854,419</u>	<u>\$ 6,876,893</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 2,747,738	\$ 5,230,116	\$	\$ 5,230,116
50,183	4,940,601		4,940,601
	2,602,318		2,602,318
		33,833	33,833
	401,717		401,717
	2,834		2,834
	27,988	(27,988)	
	119,218		119,218
	25,685		25,685
	178,756		178,756
		130,464	130,464
		222,075	222,075
		22,080,327	22,080,327
<u>\$ 2,797,921</u>	<u>\$ 13,529,233</u>	<u>\$ 22,438,711</u>	<u>\$ 35,967,944</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 336,696	\$ 2,723
Accrued Interest Payable		
Due to Other Funds		
Security Deposits	267,000	
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 603,696</u>	<u>\$ 2,723</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	<u>\$ - 0 -</u>	<u>\$ 3,675,276</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 119,218	\$
For Regional Wastewater Treatment Plant		
Operations	178,756	
Restricted for Authorized Construction		
Restricted for Debt Service		3,198,894
Unassigned	<u>2,952,749</u>	
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,250,723</u>	<u>\$ 3,198,894</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 3,854,419</u>	<u>\$ 6,876,893</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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



Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 454,943	\$ 794,362	\$	\$ 794,362
		200,273	200,273
27,988	27,988	(27,988)	
	267,000		267,000
		1,855,000	1,855,000
		14,315,000	14,315,000
<u>\$ 482,931</u>	<u>\$ 1,089,350</u>	<u>\$ 16,342,285</u>	<u>\$ 17,431,635</u>
<u>\$ - 0 -</u>	<u>\$ 3,675,276</u>	<u>\$ (84,699)</u>	<u>\$ 3,590,577</u>
\$	\$ 119,218	\$ (119,218)	\$
	178,756	(178,756)	
2,314,990	2,314,990	(2,314,990)	
	3,198,894	(3,198,894)	
	2,952,749	(2,952,749)	
<u>\$ 2,314,990</u>	<u>\$ 8,764,607</u>	<u>\$ (8,764,607)</u>	<u>\$ - 0 -</u>
<u>\$ 2,797,921</u>	<u>\$ 13,529,233</u>		
		\$ 8,577,856	\$ 8,577,856
		3,117,153	3,117,153
		3,250,723	3,250,723
		<u>\$ 14,945,732</u>	<u>\$ 14,945,732</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds	\$	8,764,607
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		22,432,866
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Deferred inflows of resources related to property tax revenues and penalty and interest revenues on delinquent taxes for the 2017 and prior levies became part of recognized revenue in the governmental activities of the District.		118,532
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (200,273)	
Payable Within One Year	(1,855,000)	
Payable After One Year	<u>(14,315,000)</u>	<u>(16,370,273)</u>
Total Net Position - Governmental Activities		<u>\$ 14,945,732</u>

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

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$	\$ 3,477,629
Service Charge	1,532,488	
Water Service	601,060	
Wastewater Service	943,288	
Fire Fighting and Ambulance Service	774,628	
Law Enforcement Service	272,606	
Sales and Use Tax Revenue	117,957	
Penalty and Interest	62,174	33,046
Tap Connection and Inspection Fees	250	
Investment Revenues	15,158	58,581
Miscellaneous Revenues	183,240	9
<b>TOTAL REVENUES</b>	<b>\$ 4,502,849</b>	<b>\$ 3,569,265</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 143,543	\$ 8,395
Contracted Services	1,445,820	85,114
Purchased Water Service	291,695	
Purchased Wastewater Service	635,241	
Utilities	89,637	
Repairs and Maintenance	637,915	
Depreciation		
Other	223,088	13,974
Capital Outlay		
Debt Service:		
Bond Principal		2,425,000
Bond Interest		503,909
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 3,466,939</b>	<b>\$ 3,036,392</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 1,035,910</b>	<b>\$ 532,873</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JANUARY 1, 2018</b>	<b>2,214,813</b>	<b>2,666,021</b>
<b>FUND BALANCES/NET POSITION - DECEMBER 31, 2018</b>	<b>\$ 3,250,723</b>	<b>\$ 3,198,894</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 3,477,629	\$ 2,461	\$ 3,480,090
	1,532,488		1,532,488
	601,060		601,060
	943,288		943,288
	774,628		774,628
	272,606		272,606
	117,957		117,957
	95,220	(690)	94,530
	250		250
5,086	78,825		78,825
	183,249		183,249
<u>\$ 5,086</u>	<u>\$ 8,077,200</u>	<u>\$ 1,771</u>	<u>\$ 8,078,971</u>
\$	\$ 151,938	\$	\$ 151,938
	1,530,934		1,530,934
	291,695		291,695
	635,241		635,241
	89,637		89,637
	637,915		637,915
		937,712	937,712
	237,062		237,062
822,048	822,048	(822,048)	
	2,425,000	(2,425,000)	
	503,909	27,548	531,457
<u>\$ 822,048</u>	<u>\$ 7,325,379</u>	<u>\$ (2,281,788)</u>	<u>\$ 5,043,591</u>
\$ (816,962)	\$ 751,821	\$ (751,821)	\$
		3,035,380	3,035,380
3,131,952	8,012,786	3,897,566	11,910,352
<u>\$ 2,314,990</u>	<u>\$ 8,764,607</u>	<u>\$ 6,181,125</u>	<u>\$ 14,945,732</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ 751,821
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	2,461
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	(690)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(937,712)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	822,048
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	2,425,000
Governmental funds report interest payments on long-term liabilities as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(27,548)
Change in Net Position - Governmental Activities	<u>\$ 3,035,380</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 55 of Harris County, Texas (the “District”) was created effective July 24, 1974 by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 7, 1974 and the first bonds were sold on December 30, 1974.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units. The District is a participant in a joint venture for the construction and operations of the Blackhawk Central Wastewater Treatment Plant as administered by the Gulf Coast Waste Disposal Authority. For additional disclosures see Note 8.

Financial Statement Presentation

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Financial Statement Presentation (Continued)

The GASB Codification set 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.

Government-Wide Financial Statements

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

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include collections of the 2017 tax levy during the period October 1, 2017, to December 31, 2018, and taxes collected from January 1, 2018, to December 31, 2018 for the 2016 and prior tax levies. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures. The 2018 tax levy has been fully deferred to meet the operating expenditures for the 2019 year.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

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

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

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Measurement Focus

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

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

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

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

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

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

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

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

Accounting Estimates

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3. LONG TERM DEBT**

	Refunding Series 2012	Series 2013	Refunding Series 2016
Amounts Outstanding - December 31, 2018	\$ 4,040,000	\$ 7,475,00	\$ 4,485,000
Interest Rates	2.00%-4.00%	2.25%-4.00%	1.799%
Maturity Dates – Serially Beginning/Ending	February 1, 2019/2025	February 1, 2019/2027	February 1, 2019/2025
Interest Payment Dates	February 1, August 1	February 1, August 1	February 1, August 1
Callable Dates	February 1, 2019*	February 1, 2019*	February 1, 2022*

\* Or any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2013 term bonds maturing on February 1, 2027, are subject to mandatory redemption beginning February 1, 2026.

The following is a summary of transactions regarding long-term liabilities for the year ended December 31, 2018:

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	\$ 18,425,000	\$	\$ 2,425,000	\$ 16,000,000
Unamortized Discounts	(100,864)		(78,547)	(22,317)
Unamortized Premiums	223,937		31,620	192,317
Bonds Payable, Net	<u>\$ 18,548,073</u>	<u>\$ -0-</u>	<u>\$ 2,378,073</u>	<u>\$ 16,170,000</u>
		Amount Due Within One Year		\$ 1,855,000
		Amount Due After One Year		14,315,000
		Bonds Payable, Net		<u>\$ 16,170,000</u>

As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,855,000	\$ 461,933	\$ 2,316,933
2020	1,925,000	418,127	2,343,127
2021	2,000,000	365,047	2,365,047
2022	2,120,000	307,124	2,427,124
2023	2,120,000	242,879	2,362,879
2024-2027	5,980,000	363,240	6,343,240
	<u>\$ 16,000,000</u>	<u>\$ 2,158,350</u>	<u>\$ 18,158,350</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>	<u>Park and Recreational Bonds</u>
Amount Authorized by Voters	\$ 64,240,000	\$ 50,000,000	\$ 5,900,000
Amount Issued	<u>54,840,000</u>	<u>15,330,000</u>	<u>5,900,000</u>
Remaining to be Issued	<u>\$ 9,400,000</u>	<u>\$ 34,670,000</u>	<u>\$ - 0 -</u>

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

During the year ended December 31, 2018, the District levied an ad valorem debt service tax rate of \$0.40 per \$100 of assessed valuation, which resulted in a tax levy of \$3,590,577 on the adjusted taxable valuation of \$897,590,880 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1, as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

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

The Series 2012 Refunding, 2013 and 2016 Refunding bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$5,630,116 and the bank balance was \$5,707,307. The District was not subject to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2018, as listed below:

	Cash	Certificate of Deposit	Total
GENERAL FUND	\$ 1,845,098	\$ 150,000	\$ 1,995,098
DEBT SERVICE FUND	637,280	250,000	887,280
CAPITAL PROJECTS FUND	2,747,738		2,747,738
TOTAL DEPOSITS	<u>\$ 5,230,116</u>	<u>\$ 400,000</u>	<u>\$ 5,630,116</u>

Investments

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts 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.

As of December 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 1,104,511	\$ 1,104,511
Certificates of Deposit	150,000	150,000
<u>DEBT SERVICE FUND</u>		
TexPool	3,385,907	3,385,907
Certificate of Deposit	250,000	250,000
<u>CAPITAL PROJECTS FUND</u>		
TexPool	50,183	50,183
<b>TOTAL INVESTMENTS</b>	<u><b>\$4,940,601</b></u>	<u><b>\$4,940,601</b></u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, the District's investments in TexPool was rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Restrictions

All cash and investment of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018:

	January 1, 2018	Increases	Decreases	December 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 130,464	\$	\$	\$ 130,464
Construction in Progress	<u>63,032</u>	<u>822,048</u>	<u>663,005</u>	<u>222,075</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 193,496</u>	<u>\$ 822,048</u>	<u>\$ 663,005</u>	<u>\$ 352,539</u>
<b>Capital Assets Subject to Depreciation</b>				
Buildings and Improvements	\$ 787,115	\$	\$	\$ 787,115
Water System	8,156,598			8,156,598
Wastewater System	15,649,955	231,325		15,881,280
Drainage System	4,390,492			4,390,492
Investment in Wastewater Treatment Plant	5,629,215	431,680		6,060,895
Investment in Surface Water Capacity	<u>4,898,293</u>			<u>4,898,293</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 39,511,668</u>	<u>\$ 663,005</u>	<u>\$ - 0 -</u>	<u>\$ 40,174,673</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	\$ 508,572	\$ 19,043	\$	\$ 527,615
Water System	4,919,192	285,318		5,204,510
Wastewater System	5,079,282	362,519		5,441,801
Drainage System	476,062	97,566		573,628
Investment in Wastewater Treatment Plant	3,881,118	46,791		3,927,909
Investment in Surface Water Capacity	<u>2,292,408</u>	<u>126,475</u>		<u>2,418,883</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 17,156,634</u>	<u>\$ 937,712</u>	<u>\$ - 0 -</u>	<u>\$ 18,094,346</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 22,355,034</u>	<u>\$ (274,707)</u>	<u>\$ - 0 -</u>	<u>\$ 22,080,327</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 22,548,530</u>	<u>\$ 547,341</u>	<u>\$ 663,005</u>	<u>\$ 22,432,866</u>

The District has financed drainage facilities and park facilities which have been conveyed to other entities for maintenance.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 7. MAINTENANCE TAX**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax would be in addition to taxes, which the District is authorized to levy for paying principal of and interest on the outstanding bonds, and any tax bonds, which may be issued in the future. To date, voters in the District have not approved the levy of a maintenance tax.

**NOTE 8. WASTE DISPOSAL CONTRACT**

The District entered into a Waste Disposal Contract with the Gulf Coast Waste Disposal Authority (the "Authority") on December 12, 1974, whereby the Authority agreed to build and operate a regional waste treatment plant, Blackhawk Regional Facility. In prior periods, the District participated with other parties in the construction of two phases of the plant.

The participating parties and their respective pro rata share of capacity in the regional sewage treatment plant are:

	<u>Gallons Per Day Capacity</u>	<u>Percentage of Total Capacity</u>
Harris County Municipal Utility District No. 55	1,875,000	20.27%
The City of Friendswood	4,854,000	52.70
The City of Houston	1,497,000	15.95
Baybrook Municipal Utility District No. 1	<u>1,025,000</u>	<u>11.08</u>
TOTAL	<u>9,251,000</u>	<u>100.00%</u>

The following summary financial data of Gulf Coast Waste Disposal Authority Special Revenue Fund – Blackhawk Regional Facility is presented for the fiscal year ended December 31, 2018, which is the latest audited financial data on the plant.

	<u>Joint Venture Enterprise Fund</u>
Assets	
Current Assets	\$ 1,725,320
Non-Current Assets	<u>11,317,285</u>
Total Assets	<u>\$ 13,042,605</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 8. WASTE DISPOSAL CONTRACT (Continued)**

	Joint Venture Enterprise Fund
Liabilities	
Current Liabilities	\$ 175,350
Non-Current Liabilities	<u>851,950</u>
Total Liabilities	<u>\$ 1,027,300</u>
Net Position	
Net Investment in Capital Assets	\$11,317,285
Restricted for Contingency Reserve	716,650
Unrestricted	<u>(18,630)</u>
	<u>\$12,015,305</u>

During the current year, the District paid or accrued invoices in the amount of \$635,241 for its share of operations and maintenance of this plant. The District has advanced \$178,756 for its pro rata share of operations of the Regional Sewage Treatment Plant. Audited financial statements of the Authority are available by writing the Authority at 910 Bay Area Blvd., Houston, TX 77058 or calling (281) 488-4115.

**NOTE 9. CONTRACT FOR FIRE FIGHTING SERVICES**

A Fire Fighting Services Plan and Contract was approved by the District's voters on August 10, 1985, and by the Commission on August 22, 1985.

On October 22, 1985, and as amended October 7, 1986, February 14, 1989, October 21, 1997, July 16, 2002, April 20, 2004 and July 17, 2007 the District entered into a contract with Forest Bend Volunteer Fire Department, Inc. ("Department"), whereby the Volunteer Fire Department agrees to provide fire fighting services within the District's boundaries. The District agrees to pay the Department monthly in the amount of one-twelfth of the Department's approved annual budget. The term of the contract shall automatically renew for additional periods of one year each, commencing on December 31, 1985, unless written notice of termination is given by either party at least six months prior to the termination date of the contract or any extension period.

In accordance with the current rate order, the District charges residents of the District \$8.05 per home per month for fire fighting services. During the current fiscal year, the District recorded fire fighting service revenue of \$573,117 and fire fighting service expenditures of \$588,000 including a payable of \$49,000 as of December 31, 2018.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 10. SURFACE WATER SUPPLY AGREEMENT**

On July 13, 1987, the District entered into a Cost Sharing Water Project Contract with the City of Houston (the “City”). The contract was amended on March 28, 1990, and December 10, 1997. This agreement provides for the acquisition and construction of the Southeast Water Purification Plant (the “Plant”) to serve both the City and the District. The City also contracted, by separate agreement, with other entities for equitable shares of the plant. The project consisted of certain raw surface water transmission facilities and surface water treatment facilities capable of producing 80 million gallons of water per day and certain treated water storage facilities, treated water pumping facilities and treated water distribution pipe-lines capable of storing 25 million gallons of water and pumping 156,000 gallons of water per minute. Upon completion of the project, the District paid its pro rata share of actual production construction cost and actual pumping construction cost. With these acquisitions and purchases, the District owned a total demand capacity of 0.9750 MGD in the Plant. Along with the demand allocation, the District also had 1.1560 MGD in the pumping allocation and 1.450 MGD in the distribution allocation of the Plant.

On April 28, 1998, the District entered into a water capacity purchase and sale agreement with Gulf Coast Water Authority (“GCWA”) acting on behalf of the City of Galveston (“Galveston”). Under such agreement, Galveston would sell the District a portion of its share of capacity in the Plant upon the completion of the addition of capacity to the Thomas S. Mackey Water Treatment Plant. The agreement called for the District to place the purchase price of \$2,337,600 in escrow. On September 24, 2001, the District transferred the escrowed funds to the GCWA to purchase an additional 2.0 MGD in the Plant. In addition, the District also purchased an additional 1.4875 MGD in the Plant from the City at the purchase price of \$855,694.

On or about June 21, 2001, the District entered into the Cost Sharing Agreement related to the Plant with the City and the Plant’s other participants. The agreement standardized the relationship among the participants in the Plant, and superseded any and all existing agreements. The agreement also set out the cost sharing to increase the production capacity of the Plant to 120 MGD. Upon the completion of the plant expansion, the District owned a total demand capacity of 4.4625 MGD in the Plant. The District also had 4.2520 MGD capacity in the pumping allocation and the distribution allocation of the Plant. The District subsequently sold 0.5 MGD in capacity to both the City of Friendswood and the GCWA. The District received \$1,168,800 related to the sale of this capacity. This sale reduced the District’s demand capacity to 3.4625 MGD.

On September 27, 2007, the Amendment to the Cost Sharing Agreement became effective. This agreement outlined the sharing of the costs to increase the production capacity of the Plant to 200 MGD. The District’s share of this cost was \$871,156. The District will continue to own a total demand capacity of 3.4625 MGD in the Plant. Along with the demand allocation, the District will also have 4.2520 MGD in the pumping allocation and the distribution allocation of the Plant.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 10. SURFACE WATER SUPPLY AGREEMENT (Continued)**

On November 9, 2015, the Replacement Water Line Capacity and Cost Sharing Agreement - New Galveston Line Project was approved by the District. This agreement outlines the sharing costs of constructing a network of new water mains which will replace the existing 42-inch water main and provide 80.03 MGD in total capacity. This agreement only provides costs and work associated with Phase 1 (preliminary engineering report) for the New Galveston Line Project. Subsequent amendments will be made to this agreement to ultimately provide for all costs and work associated with Phase 2 (final design and project property acquisition) and Phase 3 (construction) of the New Galveston Line Project. On January 15, 2019, subsequent to year-end, the agreement was amended to address the scope and cost of work associated with Phases 2 and 3, add Pasadena as a party and to increase GCWA's capacity by an additional 20 MGD.

The City of Houston is responsible for billing the District for their pro rata share of operating and maintenance charges on a quarterly basis. Costs are primarily allocated based upon pumpage. The term of the contract is 40 years and shall be automatically renewed for another 40 years unless terminated in writing by either party no less than sixty days prior to such forty-year anniversary date. As of December 31, 2018, the rate per 1,000 gallons of water received was \$0.6164. During the current fiscal year, the District recorded an expenditure of \$291,695 for water pumped into the District.

**NOTE 11. RISK MANAGEMENT**

The District is exposed to various risks of loss related to tort, theft of, damage to and destruction of assets, errors and omissions, and natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 12. CONTRACT FOR EMERGENCY MEDICAL SERVICES**

Effective October 1, 2004, the District entered into a contract with Clear Lake Emergency Medical Corps, Inc. (CLEMC), whereby CLEMC agrees to provide emergency medical care and transportation for the sick and injured within the District's boundaries. The District agrees to compensate CLEMC based upon the number of calls made by residents of the District in relation to the total number of calls for service received by CLEMC multiplied by the total funding required for CLEMC to remain financially solvent, as determined by the CLEMC board of directors. The compensation for each subsequent year is not to exceed 115% of the previous year's compensation. The agreement states that the District will have representation on the CLEMC board of directors. The term of the contract will automatically renew for additional periods of one year each, commencing on October 1, 2004, unless written notice of termination is given by either party at least 90 days prior to the termination date.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 12. CONTRACT FOR EMERGENCY MEDICAL SERVICES (Continued)**

In October 2004, the District began charging residents of the District in accordance with the contract. The current rate being charged is \$3.40 per home per month. During the current fiscal year, the District recorded emergency medical service revenue of \$201,511 and emergency medical service expenditures of \$219,325. In addition, the District has recorded a prepaid amount of \$73,108 as of December 31, 2018 for the January 2019, February 2019, March 2019, and April 2019 payments made prior to year-end.

**NOTE 13. INTERLOCAL AGREEMENT FOR LAW ENFORCEMENT SERVICES**

The District entered into an Interlocal Agreement for Law Enforcement Services (Agreement) with Harris County, Texas (the “County”). The County agrees to authorize the Sheriff to provide four deputies to devote seventy percent (70%) of their working time providing law enforcement services within the District’s geographical boundaries.

The District renewed the Agreement to cover the period from March 1, 2018, through February 28, 2019. The District’s cost per month during this term is \$23,055.

In accordance with the current rate order, the District charges residents of the District \$4.20 per home per month for law enforcement services. During the current fiscal year, the District recorded law enforcement service revenues of \$272,606 and law enforcement service expenditures of \$275,320. In addition, the District has recorded a prepaid amount of \$46,110 as of December 31, 2018 for the January 2019 and February 2019 payments made prior to year-end.

**NOTE 14. STRATEGIC PARTNERSHIP AGREEMENT**

Effective April 9, 2007, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston, Texas. Under the agreement, and in accordance with Subchapter F of Chapter 43 of the Local Government Code, the City has annexed a tract of land within the District for limited purposes. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The taxable property within the District is not liable for any present or future debts of the City, and current and future taxes levied by the City may not be levied on taxable property within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibilities of the District during the 30-year term of the SPA. The City may not annex the District for full purposes during the term of this agreement. The qualified voters of the District may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the District.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 14. STRATEGIC PARTNERSHIP AGREEMENT (Continued)**

The City imposes a Sales and Use Tax within the boundaries of the District under the SPA on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax revenues collected within the District. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Controller's office. The term of this SPA is 30 years from the effective date April 9, 2007. During the current fiscal year, the District received \$117,957 in accordance with this agreement of which \$25,685 was recorded as a receivable as of December 31, 2018.

**NOTE 15. USE OF SURPLUS FUNDS**

On September 20, 2018, the Commission approved the use of \$431,680 of surplus Capital Project Fund monies to purchase additional wastewater capacity in the Blackhawk Regional Wastewater Plant. During the current year, the District expended \$431,680 to purchase the additional wastewater capacity in the Blackhawk Regional Wastewater Plant.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018**





**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Service Charge	\$ 1,382,440	\$ 1,532,488	\$ 150,048
Water Service	557,600	601,060	43,460
Wastewater Service	949,900	943,288	(6,612)
Fire Fighting and Ambulance Service	807,325	774,628	(32,697)
Law Enforcement Service	276,660	272,606	(4,054)
Sales and Use Tax Revenue	93,000	117,957	24,957
Penalty and Interest	187,000	62,174	(124,826)
Tap Connection and Inspection Fees	3,200	250	(2,950)
Investment Revenues	3,300	15,158	11,858
Miscellaneous Revenues	88,000	183,240	95,240
<b>TOTAL REVENUES</b>	<u>\$ 4,348,425</u>	<u>\$ 4,502,849</u>	<u>\$ 154,424</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 184,400	\$ 143,543	\$ 40,857
Contracted Services	1,434,985	1,445,820	(10,835)
Purchased Water Service	382,000	291,695	90,305
Purchased Wastewater Service	750,000	635,241	114,759
Utilities	86,000	89,637	(3,637)
Repairs and Maintenance	650,200	637,915	12,285
Other	229,100	223,088	6,012
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,716,685</u>	<u>\$ 3,466,939</u>	<u>\$ 249,746</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 631,740	\$ 1,035,910	\$ 404,170
<b>FUND BALANCE - JANUARY 1, 2018</b>	<u>2,214,813</u>	<u>2,214,813</u>	<u></u>
<b>FUND BALANCE - DECEMBER 31, 2018</b>	<u>\$ 2,846,553</u>	<u>\$ 3,250,723</u>	<u>\$ 404,170</u>

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**

**SUPPLEMENTARY INFORMATION REQUIRED BY THE  
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**DECEMBER 31, 2018**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

<u>  X  </u>	Retail Water	<u>          </u>	Wholesale Water	<u>  X  </u>	Drainage
<u>  X  </u>	Retail Wastewater	<u>          </u>	Wholesale Wastewater	<u>          </u>	Irrigation
<u>          </u>	Parks/Recreation	<u>  X  </u>	Fire Protection	<u>  X  </u>	Law Enforcement
<u>          </u>	Solid Waste/Garbage	<u>          </u>	Flood Control	<u>          </u>	Roads
<u>          </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u>  X  </u>	Other (specify): <u>Emergency Medical Services</u>				

**2. RETAIL SERVICE PROVIDERS**

**a. RETAIL RATES FOR A 3/4" METER (OR EQUIVALENT):**

Based on the rate order effective December 18, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:			N	\$ 1.25 \$ 1.40 \$ 1.80 \$ 3.10	0 to 6,000 6,001 to 10,000 10,001 to 20,000 20,001 and up
WASTEWATER:			N	\$ 2.30 \$ 2.85	0 to 6,000 6,001 and up
SURCHARGE:					
FIRE PROTECTION	\$ 8.05		Y		
EMERGENCY MEDICAL SERVICE	\$ 3.40		Y		
SERVICE CHARGE	\$ 23.60		Y		
LAW ENFORCEMENT	\$ 4.20		Y		
District employs winter averaging for wastewater usage?					<u>          </u> <u>  X  </u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$13.10 Wastewater: \$25.20 Surcharge: \$39.25 Total: \$77.55

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

<b>Meter Size</b>	<b>Total Connections</b>	<b>Active Connections</b>	<b>ESFC Factor</b>	<b>Active ESFCs</b>
Unmetered			x 1.0	
≤¾"	4,284	4,241	x 1.0	4,241
1"	30	28	x 2.5	70
1½"	15	14	x 5.0	70
2"	42	41	x 8.0	328
3"	2	2	x 15.0	30
4"	2	2	x 25.0	50
6"	3	3	x 50.0	150
8"			x 80.0	
10"			x 115.0	
Total Water Connections	4,378	4,331		4,939
Total Wastewater Connections	4,335	4,295	x 1.0	4,295

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

Gallons pumped into system:	93,829,000	Water Accountability Ratio: 84% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	394,282,000	
Gallons purchased:	375,769,000	From: City of Houston, Texas

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 17,800
Engineering	54,759
Legal	69,234
Financial Advisor	<u>1,750</u>
TOTAL PROFESSIONAL FEES	<u>\$ 143,543</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 291,695
Purchased Wastewater Service	<u>635,241</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 926,936</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 19,769
Operations and Billing	<u>343,406</u>
TOTAL CONTRACTED SERVICES	<u>\$ 363,175</u>
UTILITIES:	
Electricity	\$ 82,181
Natural Gas	1,454
Telephone	<u>6,002</u>
TOTAL UTILITIES	<u>\$ 89,637</u>
REPAIRS AND MAINTENANCE	<u>\$ 637,915</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 21,750
Insurance	28,114
Office Building Maintenance	7,030
Office Supplies and Postage	80,274
Payroll Taxes	1,664
Election Costs	1,000
Travel and Meetings	<u>10,453</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 150,285</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

TAP CONNECTIONS	\$ <u>13,400</u>
LAW ENFORCEMENT	\$ <u>275,320</u>
FIRE FIGHTING	\$ <u>588,000</u>
EMERGENCY MEDICAL SERVICES	\$ <u>219,325</u>
OTHER EXPENDITURES:	
Chemicals	\$ 6,950
Laboratory Fees	18,586
Permit Fees	12,466
Inspection Fees	10,224
Regulatory Assessment	7,665
Other	<u>3,512</u>
TOTAL OTHER EXPENDITURES	\$ <u>59,403</u>
TOTAL EXPENDITURES	\$ <u><u>3,466,939</u></u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**INVESTMENTS**  
**DECEMBER 31, 2018**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0007	Varies	Daily	\$ 1,104,511	\$
Certificate of Deposit	XXXX0786	2.30%	01/27/19	<u>150,000</u>	<u>1,446</u>
TOTAL GENERAL FUND				<u>\$ 1,254,511</u>	<u>\$ 1,446</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0008	Varies	Daily	\$ 3,385,907	\$
Certificate of Deposit	XXXX4892	1.50%	09/23/19	125,000	509
Certificate of Deposit	XXXX4893	2.62%	09/28/19	<u>125,000</u>	<u>879</u>
TOTAL DEBT SERVICE FUND				<u>\$ 3,635,907</u>	<u>\$ 1,388</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0013	Varies	Daily	<u>\$ 50,183</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u><u>\$ 4,940,601</u></u>	<u><u>\$ 2,834</u></u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -		
JANUARY 1, 2018	\$ 2,954,921	
Adjustments to Beginning Balance	<u>(10,066)</u>	\$ 2,944,855
Original 2018 Tax Levy	\$ 3,442,164	
Adjustment to 2018 Tax Levy	<u>148,413</u>	<u>3,590,577</u>
TOTAL TO BE ACCOUNTED FOR		\$ 6,535,432
TAX COLLECTIONS:		
Prior Years	\$ 2,860,156	
Current Year	<u>1,072,958</u>	<u>3,933,114</u>
TAXES RECEIVABLE - DECEMBER 31, 2018		<u>\$ 2,602,318</u>
TAXES RECEIVABLE BY YEAR:		
2018		\$ 2,517,619
2017		26,409
2016		17,179
2015		12,226
2014		7,901
2013		5,176
2012		3,750
2011		3,233
2010		2,735
2009		2,066
2008		980
2007		699
2006		634
2004		297
2001		341
2000		461
1999		484
1998		<u>128</u>
TOTAL		<u>\$ 2,602,318</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 183,471,353	\$ 181,175,214	\$ 162,974,377	\$ 137,101,384
Improvements	773,342,328	748,072,371	694,207,995	644,071,916
Personal Property	12,972,710	12,934,617	18,317,816	16,215,993
Exemptions	<u>(72,195,511)</u>	<u>(68,723,269)</u>	<u>(64,575,998)</u>	<u>(60,820,034)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 897,590,880</u>	<u>\$ 873,458,933</u>	<u>\$ 810,924,190</u>	<u>\$ 736,569,259</u>
DEBT SERVICE TAX RATES PER \$100 VALUATION	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>
ADJUSTED TAX LEVY*	<u>\$ 3,590,577</u>	<u>\$ 3,490,155</u>	<u>\$ 3,242,670</u>	<u>\$ 2,946,387</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>29.88 %</u>	<u>99.24 %</u>	<u>99.47 %</u>	<u>99.59 %</u>

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

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**ASSESSED VALUE BY CLASSIFICATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Type of Property	2018 Tax Roll Year	
	Amount	Percentage
Single Family	\$ 770,138,115	85.80%
Multi-Family	64,009,242	7.13%
Commercial	56,919,256	6.34%
Acreage	1,864,610	0.21%
Vacant Lot	4,659,657	0.52%
Total	<u>\$ 897,590,880</u>	<u>100.00%</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**PRINCIPAL TAXPAYERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>Top Ten Taxpayers</u>	<u>Assessed Value</u>
1. Mosaic Baybrook One LP	\$ 24,547,100
2. Mosaic Baybrook Two LP	23,350,712
3. RFI Cyrstal Bay LLC	16,362,142
4. Bay 528 Plaza LLC	6,846,592
5. 2300 Bay Area SP LLC	6,266,652
6. MDDS Properties LLC	5,470,460
7. Storage Trust Properties	4,030,000
8. CSH 2016 2 Borrower LLC	3,956,529
9. MDDS Properties LLC	3,855,034
10. Centerpoint Energy Hou Ele	<u>3,795,240</u>
Total Ten Principal Taxpayers	<u><u>\$ 98,480,461</u></u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

REFUNDING SERIES - 2012			
Due During Fiscal Years Ending December 31	Principal Due February 1	Interest Due February 1/ August 1	Total
2019	\$ 455,000	\$ 147,950	\$ 602,950
2020	475,000	133,900	608,900
2021	500,000	114,400	614,400
2022	550,000	93,400	643,400
2023	795,000	66,500	861,500
2024	620,000	38,200	658,200
2025	645,000	12,900	657,900
2026			
2027			
	<u>\$ 4,040,000</u>	<u>\$ 607,250</u>	<u>\$ 4,647,250</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 3			
Due During Fiscal Years Ending December 31	Principal Due February 1	Interest Due February 1/ August 1	Total
2019	\$ 700,000	\$ 239,594	\$ 939,594
2020	725,000	222,656	947,656
2021	750,000	202,344	952,344
2022	800,000	179,094	979,094
2023	825,000	153,172	978,172
2024	875,000	123,938	998,938
2025	900,000	92,313	992,313
2026	925,000	57,500	982,500
2027	975,000	19,500	994,500
	<u>\$ 7,475,000</u>	<u>\$ 1,290,111</u>	<u>\$ 8,765,111</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

REFUNDING SERIES - 2016			
Due During Fiscal Years Ending December 31	Principal Due February 1	Interest Due February 1/ August 1	Total
2019	\$ 700,000	\$ 74,389	\$ 774,389
2020	725,000	61,571	786,571
2021	750,000	48,303	798,303
2022	770,000	34,630	804,630
2023	500,000	23,207	523,207
2024	510,000	14,122	524,122
2025	530,000	4,767	534,767
2026			
2027			
	<u>\$ 4,485,000</u>	<u>\$ 260,989</u>	<u>\$ 4,745,989</u>

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 1,855,000	\$ 461,933	\$ 2,316,933
2020	1,925,000	418,127	2,343,127
2021	2,000,000	365,047	2,365,047
2022	2,120,000	307,124	2,427,124
2023	2,120,000	242,879	2,362,879
2024	2,005,000	176,260	2,181,260
2025	2,075,000	109,980	2,184,980
2026	925,000	57,500	982,500
2027	975,000	19,500	994,500
	<u>\$ 16,000,000</u>	<u>\$ 2,158,350</u>	<u>\$ 18,158,350</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2018
Harris County Municipal Utility District No. 55 Unlimited Tax Refunding Bonds - Series 2012	\$ 6,100,000	\$ 4,800,000
Harris County Municipal Utility District No. 55 Unlimited Tax Bonds - Series 2013	10,600,000	8,150,000
Harris County Municipal Utility District No. 55 Unlimited Tax Refunding Bonds - Series 2016	<u>6,770,000</u>	<u>5,475,000</u>
<b>TOTAL</b>	<u><u>\$ 23,470,000</u></u>	<u><u>\$ 18,425,000</u></u>

Bond Authority:	Tax Bonds*	Refunding Bonds	Park and Recreational Bonds
Amount Authorized by Voters	\$ 64,240,000	\$ 50,000,000	\$ 5,900,000
Amount Issued	<u>54,840,000</u>	<u>15,330,000</u>	<u>5,900,000</u>
Remaining to be Issued	<u><u>\$ 9,400,000</u></u>	<u><u>\$ 34,670,000</u></u>	<u><u>\$ - 0 -</u></u>

See Note 3 for interest rate, interest payment dates and maturity dates.

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

Debt Service Fund cash and investments balances as of December 31, 2018:	<u><u>\$ 4,273,187</u></u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u><u>\$ 2,017,594</u></u>

See accompanying independent auditor's report.

Current Year Transactions				Bonds Outstanding December 31, 2018	Paying Agent
Bonds Sold	Retirements				
	Principal	Interest			
	\$ 760,000	\$ 160,100	\$ 4,040,000		Wells Fargo Bank, N.A. Houston, TX
	675,000	254,218	7,475,000		BOKF, N.A. Austin, TX
	990,000	89,591	4,485,000		Wells Fargo Bank, N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 2,425,000</u>	<u>\$ 503,909</u>	<u>\$ 16,000,000</u>		

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND – FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Service Charge	\$ 1,532,488	\$ 1,399,007	\$ 1,291,360
Water Service	601,060	510,785	418,152
Wastewater Service	943,288	944,841	800,899
Fire Fighting and Ambulance Service	774,628	796,116	779,823
Law Enforcement Service	272,606	275,356	274,374
Sales and Use Tax Revenue	117,957	100,794	105,780
Penalty and Interest	62,174	58,752	56,544
Tap Connection and Inspection Fees	250	128,073	
Investment Revenues	15,158	3,517	1,708
Miscellaneous Revenues	183,240	94,858	59,523
<b>TOTAL REVENUES</b>	<u>\$ 4,502,849</u>	<u>\$ 4,312,099</u>	<u>\$ 3,788,163</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 143,543	\$ 154,784	\$ 148,178
Contracted Services	1,445,820	1,381,253	1,344,414
Purchase Water Service	291,695	394,639	301,425
Purchase Wastewater Service	635,241	780,954	733,047
Utilities	89,637	76,807	80,806
Repairs and Maintenance	637,915	433,263	541,811
Other	223,088	231,116	194,093
Capital Outlay			
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,466,939</u>	<u>\$ 3,452,816</u>	<u>\$ 3,343,774</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 1,035,910</u>	<u>\$ 859,283</u>	<u>\$ 444,389</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 493,007</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 1,035,910</u>	<u>\$ 859,283</u>	<u>\$ 937,396</u>
<b>BEGINNING FUND BALANCE</b>	<u>2,214,813</u>	<u>1,355,530</u>	<u>418,134</u>
<b>ENDING FUND BALANCE</b>	<u><u>\$ 3,250,723</u></u>	<u><u>\$ 2,214,813</u></u>	<u><u>\$ 1,355,530</u></u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 1,177,831	\$ 1,010,915	34.1 %	32.4 %	34.2 %	32.3 %	29.8 %
417,462	444,937	13.3	11.8	11.0	11.5	13.1
747,394	650,015	20.9	21.9	21.1	20.5	19.1
765,260	746,988	17.2	18.5	20.6	21.0	21.9
267,946	271,458	6.1	6.4	7.2	7.3	8.0
105,259	102,984	2.6	2.3	2.8	2.9	3.0
77,524	76,547	1.4	1.4	1.5	2.1	2.2
14,215	375		3.0		0.4	
431	452	0.3	0.1			
72,574	99,159	4.1	2.2	1.6	2.0	2.9
<u>\$ 3,645,896</u>	<u>\$ 3,403,830</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 157,183	\$ 134,043	3.2 %	3.6 %	3.9 %	4.3 %	3.9 %
1,374,819	1,367,425	32.1	32.0	35.5	37.7	40.2
251,404	212,945	6.5	9.2	8.0	6.9	6.3
875,040	1,134,011	14.1	18.1	19.4	24.0	33.3
74,047	79,714	2.0	1.8	2.1	2.0	2.3
419,801	696,134	14.2	10.0	14.3	11.5	20.5
209,112	172,852	5.0	5.4	5.1	5.7	5.1
129,225					3.5	
<u>\$ 3,490,631</u>	<u>\$ 3,797,124</u>	<u>77.1 %</u>	<u>80.1 %</u>	<u>88.3 %</u>	<u>95.6 %</u>	<u>111.6 %</u>
<u>\$ 155,265</u>	<u>\$ (393,294)</u>	<u>22.9 %</u>	<u>19.9 %</u>	<u>11.7 %</u>	<u>4.4 %</u>	<u>(11.6) %</u>
<u>\$ 7,967</u>	<u>\$ - 0 -</u>					
\$ 163,232	\$ (393,294)					
254,902	648,196					
<u>\$ 418,134</u>	<u>\$ 254,902</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 3,477,629	\$ 3,218,381	\$ 2,944,644
Penalty and Interest	33,046	18,163	22,811
Interest on Investments	58,581	23,253	10,226
Miscellaneous Revenues	<u>9</u>	<u>4,544</u>	<u>4,188</u>
<b>TOTAL REVENUES</b>	<u>\$ 3,569,265</u>	<u>\$ 3,264,341</u>	<u>\$ 2,981,869</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 106,133	\$ 103,222	\$ 109,366
Debt Service Principal	2,425,000	2,375,000	2,570,000
Debt Service Interest and Fees	505,259	550,963	656,410
Bond Issuance Costs	<u></u>	<u></u>	<u>163,602</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,036,392</u>	<u>\$ 3,029,185</u>	<u>\$ 3,499,378</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 532,873</u>	<u>\$ 235,156</u>	<u>\$ (517,509)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	\$	\$	\$ 6,770,000
Transferred to Refunding Escrow Agent			(6,602,736)
Bond Discount			
Bond Premium	<u></u>	<u></u>	<u></u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 167,264</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 532,873	\$ 235,156	\$ (350,245)
<b>BEGINNING FUND BALANCE</b>	<u>2,666,021</u>	<u>2,430,865</u>	<u>2,781,110</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 3,198,894</u>	<u>\$ 2,666,021</u>	<u>\$ 2,430,865</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>4,331</u>	<u>4,326</u>	<u>4,330</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>4,295</u>	<u>4,287</u>	<u>4,295</u>

See accompanying independent auditor's report.



		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 2,728,363	\$ 2,554,960	97.5 %	98.6 %	98.8 %	99.2 %	99.0 %
17,140	23,061	0.9	0.6	0.8	0.6	0.9
3,515	2,064	1.6	0.7	0.3	0.1	0.1
3,134			0.1	0.1	0.1	
<u>\$ 2,752,152</u>	<u>\$ 2,580,085</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 98,137	\$ 103,784	3.0 %	3.2 %	3.7 %	3.6 %	4.0 %
2,490,000	2,365,000	67.9	72.8	86.2	90.5	91.7
802,521	804,207	14.2	16.9	22.0	29.2	31.2
				5.5		
<u>\$ 3,390,658</u>	<u>\$ 3,272,991</u>	<u>85.1 %</u>	<u>92.9 %</u>	<u>117.4 %</u>	<u>123.3 %</u>	<u>126.9 %</u>
<u>\$ (638,506)</u>	<u>\$ (692,906)</u>	<u>14.9 %</u>	<u>7.1 %</u>	<u>(17.4) %</u>	<u>(23.3) %</u>	<u>(26.9) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ (638,506)	\$ (692,906)					
3,419,616	4,112,522					
<u>\$ 2,781,110</u>	<u>\$ 3,419,616</u>					
<u>4,310</u>	<u>4,311</u>					
4,275	4,275					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2018**

District Mailing Address - Harris County Municipal Utility District No. 55  
c/o Norton Rose Fulbright US LLP  
1301 McKinney Ave., Suite 5100  
Houston, TX 77010-3095

District Telephone Number - (713) 651-3613

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended December 31, 2018</b>	<b>Expense Reimbursements for the year ended December 31, 2018</b>	<b>Title</b>
Robert Squires	05/18 05/22 (Elected)	\$ 7,200	\$ 2,395	President
Sam Longoria	05/18 05/22 (Elected)	\$ 3,450	\$ 2,521	Vice President
Gabriel Mendez	05/18 05/22 (Elected)	\$ 1,650	\$ 1,823	Secretary
Richard Klenk	05/16 05/20 (Elected)	\$ 5,700	\$ 944	Treasurer/ Investment Officer
Malcolm Swinney	05/16 05/20 (Elected)	\$ 3,750	\$ -0-	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
June 30, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on August 19, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 55**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2018**

<b>Consultants:</b>	<b>Date Hired</b>	<b>Fees for the year ended December 31, 2018</b>	<b>Title</b>
Norton Rose Fulbright US LLP	08/01/74	\$ 68,783	General Counsel
McCall Gibson Swedlund Barfoot PLLC	12/15/87	\$ 17,800	Auditor
ETI Bookkeeping Services	09/05/74	\$ 19,769	Bookkeeper
Patrick D. Mahoney, P.C.	03/28/90	\$ 8,395	Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	1974	\$ 119,370	Engineer
Clear Lake Emergency Medical Corps	10/01/04	\$ 219,325	Emergency Medical Service
Public Finance Group	04/15/14	\$ 1,750	Financial Advisor
Forest Bend Volunteer Fire Department	10/22/85	\$ 588,000	Fire Fighting Service
Harris County Sheriff	2006	\$ 275,320	Law Enforcement Service
Si Environmental	07/09/12	\$1,069,570	Operator
Kenneth Byrd	09/05/74	\$ 67,923	Tax Assessor/ Collector

See accompanying independent auditor's report.



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



Norton Rose Fulbright US LLP  
1301 McKinney, Suite 5100  
Houston, Texas 77010-3095  
United States

Tel +1 713 651 5151  
Fax +1 713 651 5246  
nortonrosefulbright.com

Re: Harris County Municipal Utility District No. 55, Unlimited Tax Refunding Bonds, Series 2019

WE HAVE ACTED as bond counsel in connection with the issuance by Harris County Municipal Utility District No. 55 (the "*Issuer*") of its Unlimited Tax Refunding Bonds, Series 2019 (the "*Bonds*") in the aggregate principal amount of \$7,325,000.

IN RENDERING the opinions herein we have examined and relied on an executed Bond; original or certified copies of the proceedings had in connection with issuance of the Bonds, including the Order of the board of directors of the Issuer which authorizes issuance of the Bonds (the "*Order*"); the pricing certificate setting forth the terms of the sale of the Bonds, executed by an officer of the Issuer (the "*Officer's Pricing Certificate*"); the escrow agreement (the "*Escrow Agreement*") between the Issuer and BOKF, NA, as escrow agent (the "*Escrow Agent*"); a report of Public Finance Partners LLC, Certified Public Accountants, verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Bonds (the "*Report*"); certificates of the Issuer related to the expected use and investment of the proceeds of the sale of the Bonds and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

BASED UPON SUCH EXAMINATION, we are of the opinion, that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. All taxable property having a situs within the Issuer and not exempt from taxation by or under applicable law is subject to ad valorem taxation by the Issuer for the payment of the interest on and the principal of the Bonds. Such taxation is not limited by applicable law as to rate or amount, and the Issuer is required by applicable law to levy and assess, for each year while any of the Bonds are outstanding, a continuing direct annual ad valorem tax on taxable property within the Issuer in sufficient amount,

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together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on, and the principal of, the Bonds, as it becomes due, in each case except as otherwise described in the Bonds.

3. Pursuant to the Internal Revenue Code of 1986, as in force on the date hereof, and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Order relating to sections 141 through 150 of such Code, interest on the Bonds is excludable from the gross income, as defined in section 61 of such Code, of the owners thereof for federal income tax purposes pursuant to section 103 of such Code, and such interest will not be included in computing the federal alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, owners of an interest in a financial asset securitization investment trust, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX C**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**





## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

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

MEMBER: [NAME OF MEMBER]

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

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

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

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

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

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

Email:

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

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

