

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61
(Harris County, Texas)

PRELIMINARY OFFICIAL STATEMENT
DATED: SEPTEMBER 23, 2020

\$15,000,000
UNLIMITED TAX BONDS
SERIES 2020

BIDS TO BE SUBMITTED BY: 11:00 A.M., CENTRAL TIME
WEDNESDAY, OCTOBER 21, 2020



Financial Advisor

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 23, 2020

This Preliminary Official Statement is subject to completion and amendment and is intended for the solicitation of initial bids to purchase the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

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

The Bonds have not been designated "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book-Entry-Only Form

Moody's (Underlying) "___"

\$15,000,000

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

(A Political Subdivision of the State of Texas located in Harris County)

UNLIMITED TAX BONDS

SERIES 2020

Dated: November 1, 2020

Due: September 1, as shown on inside cover

The \$15,000,000 Unlimited Tax Bonds, Series 2020 (the "Bonds"), are obligations of Harris County Fresh Water Supply District No. 61 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, (the "Paying Agent/Registrar"). Interest on the Bonds accrues from November 1, 2020, at the rates shown on the inside cover page hereof, and is payable on March 1, 2021 (four months interest), and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

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

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.

The Bonds, when issued, constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment."

The Bonds and the issuance thereof are subject to special investment considerations described herein. Prospective purchasers should carefully examine this entire Official Statement, particularly the section of this Official Statement entitled "INVESTMENT CONSIDERATIONS," before making an investment decision. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District. Delivery of the Bonds through the facilities of DTC is expected on or about November 19, 2020.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2031 (c)	\$1,340,000	—	—	—	2036 (c)	\$1,515,000	—	—	—
2032 (c)	1,375,000	—	—	—	2037 (c)	1,555,000	—	—	—
2033 (c)	1,405,000	—	—	—	2038 (c)	1,590,000	—	—	—
2034 (c)	1,440,000	—	—	—	2039 (c)	1,630,000	—	—	—
2035 (c)	1,480,000	—	—	—	2040 (c)	1,670,000	—	—	—

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (as herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2020, is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds. None of the District, Financial Advisor, or Initial Purchaser shall be responsible for the selection or the correctness of the CUSIP numbers.
- (c) That Bonds shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption Provisions.”

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This document, when further supplemented by adding additional information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "final official statement" of the District with respect to the Bonds, as such term is defined in SEC Rule 15c2-12.

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

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

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT – Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

References to web site 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 web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission ("SEC"), as amended.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT...	1	Issuance of Additional Debt.....	11
SALE AND DISTRIBUTION OF THE BONDS	3	Paying Agent/Registrar	11
Award of the Bonds	3	Remedies in Event of Default.....	12
Prices and Marketability	3	Registered Owners' Remedies.....	12
Securities Laws.....	3	Registration, Transfer and Exchange	13
MUNICIPAL BOND INSURANCE AND RATING	3	Mutilated, Lost, Stolen or Destroyed Bonds	13
OFFICIAL STATEMENT SUMMARY	5	Redemption Provisions	13
INTRODUCTION	9	No Arbitrage	14
THE BONDS.....	9	Defeasance	14
General	9	Legal Investment and Eligibility to Secure	
Source of Payment	10	Public Funds in Texas.....	15
Authority of Issuance	10	Annexation and Consolidation	15
Outstanding Bonds	10	Strategic Partnership Agreement	16

Book-Entry-Only System	16	Factors Affecting Taxable Values and Tax	
Use of Certain Terms in Other Sections of this Official Statement.....	18	Payments	35
Use and Distribution of Bond Proceeds	18	Recent Extreme Weather: Hurricane	
THE DISTRICT.....	19	Harvey	35
Authority	19	Specific Flood Type Risks	36
Description.....	19	Infectious Disease Outlook – COVID-19	36
Management.....	19	Dependence on the Oil and Gas Industry	37
DEVELOPMENT OF THE DISTRICT	20	Tax Collections and Foreclosure Remedies.....	37
DISTRICT DEBT.....	21	Registered Owners’ Remedies.....	38
General.....	21	Bankruptcy Limitation to Registered	
Bonded Indebtedness.....	21	Owners’ Rights	38
Estimated Direct and Overlapping Debt		Marketability of the Bonds.....	38
Statement.....	22	Competitive Nature of Houston Residential	
Debt Ratios.....	22	Housing Markets.....	39
Debt Service Requirement Schedule	23	Future Debt	39
TAXING PROCEDURES	24	Future and Proposed Legislation	39
District Ability to Levy Taxes	24	Approval of the Bonds.....	39
Property Tax Code and County-Wide		Continuing Compliance with Certain	
Appraisal District	24	Covenants	40
Property Subject to Taxation by the District.....	24	Environmental Regulations.....	40
Tax Abatement	25	Bond Insurance	42
Valuation of Property for Taxation	26	LEGAL MATTERS.....	43
Reappraisal of Property	26	Legal Opinions	43
Tax Payment Installments after Disaster	26	Legal Review	44
District and Taxpayer Remedies	27	NO MATERIAL ADVERSE CHANGE.....	44
Rollback of Operation and Maintenance Tax		NO-LITIGATION CERTIFICATE	44
Rate.....	27	TAX MATTERS	44
Levy and Collection of Taxes.....	28	Tax Exemption.....	44
District’s Rights in the Event of Tax		Collateral Federal Income Tax	
Delinquencies.....	28	Consequences	45
TAX DATA.....	29	State, Local and Foreign Taxes	46
Debt Service Tax	29	Tax Accounting Treatment of Original Issue	
Maintenance Tax	29	Discount and Premium Bonds.....	46
Historical Values and Tax Collection History	29	Not Qualified Tax-Exempt Obligations	47
Analysis of Tax Base.....	30	CONTINUING DISCLOSURE OF INFORMATION.....	47
Principal Taxpayers	30	Annual Reports.....	47
Estimated Overlapping Taxes.....	30	Event Notices	47
Tax Rate Calculations	31	Availability of Information from MSRB.....	48
THE SYSTEM.....	31	Limitations and Amendments	48
Description of the System.....	31	Compliance with Prior Undertakings.....	48
Contracts for Service with Others.....	32	PREPARATION OF OFFICIAL STATEMENT	49
Subsidence and Conversion to Surface		Sources and Compilation of Information.....	49
Water Supply.....	33	Updating of Official Statement	49
Operating History.....	34	Certification as to Official Statement.....	49
INVESTMENT CONSIDERATIONS	35	CONCLUDING STATEMENT	49
General	35	APPENDIX A Financial Statements of the District	

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest bid, resulting in the lowest net interest cost to the District, which was tendered by _____ (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS" on the inside cover hereof at a price of _____% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of _____%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

The District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, dealer or similar person or organization acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-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.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon 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 acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should 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.

MUNICIPAL BOND INSURANCE AND RATING

The District has made applications for a commitment for municipal bond guaranty insurance on the Bonds. If qualified and the Initial Purchaser elects to purchase municipal bond insurance, the payment of all costs associated with the insurance, including the premium charged by the insurance company, and fees charged by rating companies, other than Moody's Investors Service, Inc. ("Moody's"), will be the obligation of the Initial Purchaser. The District will pay the rating fees charged by Moody's.

Moody's has assigned an underlying credit rating of " _____ " to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. 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 Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The District will pay the rating fees charged by Moody's.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The Issuer	Harris County Fresh Water Supply District No. 61 (the “District”) is a political subdivision of the State of Texas located within Harris County, Texas, and comprises approximately 1,825 acres. See “THE DISTRICT.”
The Issue	The District’s \$15,000,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”), are dated November 1, 2020, and mature on September 1 in each of the years and in the respective amounts shown on the inside cover page hereof. Interest on the Bonds is payable on March 1, 2021 (four months interest), and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are subject to early redemption at the option of the District on September 1, 2026, or on any date thereafter, at a price of par plus accrued interest. See “THE BONDS.”
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any political subdivision other than the District. See “THE BONDS – Source of Payment.”
Payment Record.....	The District has never defaulted on the timely payment of principal of or interest on its prior bonded indebtedness.
Outstanding Bonds	The District has previously issued eighteen series of bonds for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District and nine series of unlimited tax refunding bonds. As of September 2, 2020, \$26,530,000 principal amount of such previously issued bonds remains outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”
Use of Proceeds	Proceeds from the sale of the Bonds will primarily be used to pay for project costs related to the rehabilitation of the District’s water supply and wastewater systems as well as to pay costs of issuance of the Bonds. See “THE BONDS – Use and Distribution of Bonds Proceeds” for further information.
Not Qualified Tax-Exempt Obligations	The Bonds are not “qualified tax-exempt obligations” for financial institutions.
Municipal Bond Insurance and Ratings.....	See “MUNICIPAL BOND INSURANCE AND RATING” above.
Bond Counsel	Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas.
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
Paying Agent.....	Zions Bancorporation, National Association, Houston, Texas.

THE DISTRICT

Description.....	The District is a political subdivision of the State of Texas that contains approximately 1,825 total acres located entirely within Harris County, Texas, approximately 20 miles northwest of the central business district of the City of Houston, and wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is located within Cypress-Fairbanks Independent School District. See “THE DISTRICT – Description.”
Authority.....	The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended.
Status of Development.....	Initial development in the District began in 1966. To date, approximately 1,069 acres in the District have been developed as single-family residential subdivisions (which include a total of approximately 3,807 completed homes), approximately 129 acres have been developed to serve multi-family residential properties, and approximately 419 acres in the District have been developed for commercial purposes. The balance of the District’s acreage consists of approximately 76 acres for schools and churches and approximately 132 acres for parks, rights-of-way, streets, detention ponds, and District facilities. All developable acreage in the District is served by water, sewer and drainage facilities. See “THE DISTRICT – Status of Development.”

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could

have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THIS ENTIRE OFFICIAL STATEMENT, PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS," BEFORE MAKING AN INVESTMENT DECISION.

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2020 Taxable Assessed Valuation.....	\$1,189,166,520 (a)
Direct Debt:	
The Outstanding Bonds (as of September 2, 2020)	\$ 26,530,000
The Bonds	<u>\$ 15,000,000</u>
Total.....	\$ 41,530,000
Estimated Overlapping Debt	<u>\$ 64,182,248 (b)</u>
Total Direct and Estimated Overlapping Debt	\$ 105,712,248 (b)
Direct Debt Ratio	
As a percentage of 2020 Taxable Assessed Valuation.....	3.49 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of 2020 Taxable Assessed Valuation.....	8.89 %
Debt Service Fund Balance (as of September 2, 2020).....	\$ 3,208,177 (c)
General Fund Balance (as of September 23, 2020).....	\$ _____
2020 Debt Service Tax Rate per \$100 of Assessed Valuation	\$0.29
Estimated Average Annual Debt Service Requirement (2021–2040).....	\$ 2,566,900 (d)
Estimated Maximum Annual Debt Service Requirement (2030)	\$ 3,501,050 (d)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Average Annual Debt Service Requirement (2021–2040) at 95% Tax Collections Based on 2020 Taxable Assessed Valuation.....	\$0.23
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Estimated Maximum Annual Debt Service Requirement (2030) at 95% Tax Collections Based on 2020 Taxable Assessed Valuation.....	\$0.31
Number of Single-Family Homes.....	3,807 (e)

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- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2020, as provided by the Harris County Appraisal District. Such value includes \$160,390,729 of assessed valuation that remains uncertified and that is subject to protest, review, and downward adjustment prior to certification. See "TAX DATA" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."
- (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in its Debt Service Fund.
- (d) Requirement of debt service on the Outstanding Bonds and the Bonds based on an estimated interest rate of 2.50% on the Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."
- (e) Approximate number based on existing single-family connections in the District.

\$15,000,000

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

(A Political Subdivision of the State of Texas located in Harris County)

UNLIMITED TAX BONDS

SERIES 2020

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Fresh Water Supply District No. 61 (the "District") of its \$15,000,000 Unlimited Tax Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to: an order adopted by the Board of Directors of the District on the date of sale of the Bonds (the "Bond Order"); the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, as amended; an election held within the District and passed by a majority of the participating voters; and an order of the Texas Commission on Environmental Quality ("TCEQ").

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

THE BONDS

General

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

The Bonds are dated November 1, 2020, with interest payable on March 1, 2021 (four months interest), at the rates shown on the inside cover page hereof, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or prior redemption. Interest on the Bonds initially accrues from November 1, 2020, and thereafter, from the most recent Interest Payment Date to which interest has been paid. Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months. Principal of the Bonds will be payable at the corporate trust office of the Paying Agent/Registrar (herein defined), upon surrender of the Bonds for payment. Unless otherwise agreed between the Paying Agent/Registrar (hereinafter defined) and the owner(s) of the Bonds ("Bondholder(s)"), interest on the Bonds is payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar on or before the Interest Payment Date to the registered owners shown on the records of the Paying Agent/Registrar as of the close of business on the fifteenth (15th) day of the calendar month next preceding each Interest Payment Date (the "Record Date").

The Bonds mature on September 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on the inside cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 of principal amount or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York, in its nominee name of Cede & Co., pursuant to the book-entry system described herein. No physical delivery of the Bonds will be made to the purchasers thereof. See "Book-Entry-Only System" below.

Source of Payment

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees and Appraisal District (herein defined) fees. Tax proceeds, after deduction for collection costs, will be placed in the District's debt service fund and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds (herein defined), and additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees. The District has the authority to levy an annual ad valorem tax, without limit as to rate or amount, on all taxable property within the District for each year the Bonds are outstanding.

The Bonds, when issued, will constitute valid and binding obligations of the District. The Bonds are solely obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District.

Authority of Issuance

The Bonds are issued pursuant to: the "Bond Order; the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, as amended; an election held within the District and passed by a majority of the participating voters; and an order of the TCEQ.

The Bonds are the nineteenth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a waterworks, wastewater and storm drainage system to serve the District (the "System"). At various elections held within the District, the District's voters have authorized the District's issuance of a total of \$75,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System. At an election held within the District on April 4, 1987, the District's voters also authorized the District's issuance of a total of \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District. At an election held within the District on May 6, 2017, the District's voters authorized the District's issuance of \$30,000,000 principal amount of unlimited tax bonds for acquiring or constructing the System or for the refunding of bonds issued by the District. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for the System or for refunding. See "Issuance of Additional Debt" below.

Outstanding Bonds

The District has previously issued its \$670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1967; \$355,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1971; \$1,800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1971-A; \$100,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1973; \$880,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977; \$4,070,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1979; \$2,800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1982; \$4,550,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1984; \$3,175,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985; \$3,120,000 Unlimited Tax Refunding Bonds, Series 1987; \$7,335,000 Unlimited Tax Refunding Bonds, Series 1991; \$3,030,000 Unlimited Tax Refunding Bonds, Series 1993; \$5,600,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1995; \$8,000,000 Unlimited Tax Refunding Bonds, Series 1998; \$4,670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1999; \$4,735,000 Unlimited Tax Bonds, Series 2000; \$4,150,000 Unlimited Tax Bonds, Series 2003; \$4,490,000 Unlimited Tax Bonds, Series 2004; \$4,260,000 Unlimited Tax Refunding Bonds, Series 2005; \$4,350,000 Unlimited Tax Bonds, Series 2005B; \$7,660,000 Unlimited Tax Bonds, Series 2007; \$5,435,000 Unlimited Tax Refunding Bonds, Series 2010; \$8,630,000 Unlimited Tax Bonds, Series 2011; \$8,295,000 Unlimited Tax Refunding Bonds, Series 2012; \$7,390,000 Unlimited Tax Refunding Bonds, Series 2016; \$11,250,000 Unlimited Tax Bonds, Series 2017, and \$8,540,000 Unlimited Tax Refunding Bonds, Series 2019. Of such above-listed series of bonds previously issued by the District, \$26,530,000 principal amount remains outstanding as of September 2, 2020 (the "Outstanding Bonds").

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds. At various elections held within the District, the District's voters have authorized the District's issuance of a total of \$75,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System. At an election held within the District on April 4, 1987, the District's voters also authorized the District's issuance of a total of \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District. At an election held within the District on May 6, 2017, the District's voters authorized the District's issuance of \$30,000,000 principal amount of unlimited tax bonds for acquiring or constructing the System or for the refunding of bonds issued by the District.

The Bonds are the nineteenth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for the System or for refunding.

The District has the right to issue the aforementioned bonds without the necessity of further voter authorization. Before issuing any additional bonds for the System, the District would have to obtain approval of the Texas Commission on Environmental Quality ("TCEQ") for the issuance of such bonds and the projects to be financed thereby. In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds, revenue bonds, or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds, in addition to the refunding bonds described above, with additional voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds.

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; (c) approval of bonds by the Attorney General of Texas; and (d) amendment of the existing City of Houston ordinance specifying the purposes for which the District may issue bonds. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City of Houston concerning modification of its ordinances.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time. Issuance of additional bonds or other subsequently authorized bond could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS – Future Debt."

Paying Agent/Registrar

The District has appointed Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas, as the initial paying agent/registrar for the Bonds (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. Interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each Interest Payment Date by the Paying Agent/Registrar to the Bondholder at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date.

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor,

deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Remedies in Event of Default

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. The District may not be placed into bankruptcy involuntarily. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies," and "- Bankruptcy Limitation to Registered Owners' Rights."

Registered Owners' Remedies

The Bond Order contains a covenant that while any part of the Bonds is outstanding, there shall be assessed, levied, and collected an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District, sufficient to pay principal of and interest on the Bonds when due and to pay the expenses necessary in collecting taxes. Texas law and the Bond Order provide that in the event that the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to a writ of mandamus from a court of competent jurisdiction compelling

and requiring the Board of Directors of the District to observe and perform any covenant, obligation, or condition prescribed by the Bond Order. Such right is in addition to all other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default. Consequently, the remedy of mandamus is a remedy which may have to be relied upon from year to year by the Registered Owners. Even if the Registered Owners could obtain a judgment against the District, such judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Certain traditional legal remedies also may not be available. The enforceability of the rights and remedies of the Registered Owners may be further limited by federal bankruptcy laws, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. See "INVESTMENT CONSIDERATIONS – Bankruptcy Limitation to Registered Owners' Rights."

Registration, Transfer and Exchange

In the event the Book-Entry-Only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of, the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the

same maturity are to be redeemed, the particular Bonds shall be selected by DTC on behalf of the District in accordance with its procedures. See "THE BONDS – Book-Entry-Only System." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners of the Bonds (the "Registered Owners") to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

No Arbitrage

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

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the

Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

Annexation and Consolidation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"), the District may be annexed by the City. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, 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 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "Strategic Partnership Agreement" below for a description of terms of the Strategic Partnership Agreement between the City and the District.

If the District is annexed, the City must assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. The District has concluded an agreement with the City pursuant to which the District may not be annexed by the City, without consent of the District, prior to 2035. See "Strategic Partnership Agreement" below. No representation is made concerning the eventual likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

A district (such as the District) has the legal authority to consolidate with other municipal utility districts, and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Strategic Partnership Agreement

The District entered into that certain Strategic Partnership Agreement dated effective March 31, 2005, with the City. The agreement was amended on December 13, 2010, and on November 22, 2013, and, as amended, said Strategic Partnership Agreement is hereinafter referred to as the “SPA.” The SPA provides for the limited-purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City’s Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to fifty percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District, without the District’s consent, or commence any action to annex all or part of the District for full purposes. None of the amounts to be received by the District under the SPA are pledged to the payment of debt service on the Bonds.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company New York, New York (“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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (2) 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 (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, 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 rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue 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).

Redemption proceeds, principal and interest 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 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest 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 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 the section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will be used as follows:

	<u>District's Share</u>
<u>Construction Costs</u>	
A. Developer Contribution Items	
None	\$ 0
B. District Items	
1. Water Plant No. 1 Rehabilitation	\$ 760,000
2. Water Plant No. 3 Rehabilitation	1,423,000
3. Water Plant No. 3 Rehabilitation	610,000
4. Water Plant No. 4 Rehabilitation	803,000
5. Water Distribution System Rehabilitation	1,200,000
6. Water Collection System Rehabilitation	2,750,000
7. Lift Station Rehabilitation	323,000
8. Wastewater Treatment Plant No. 1 Rehabilitation	1,434,813
9. Wastewater Treatment Plant No. 2 Rehabilitation	971,375
10. Detention Pond Rehabilitation	200,000
11. Administration Building Parking Lot Expansion	80,000
12. Contingencies (10% of Item Nos. 1-11)	1,055,519
13. Engineering Fees (22% of Item Nos. 1-11)	2,322,141
Total District Items	<u>\$ 13,932,848</u>
Total Construction Costs	\$ 13,932,848
<u>Non-Construction Costs</u>	
A. Legal Fees (2.0%)	\$ 305,000
B. Fiscal Agent Fees (2.0%)	190,000
C. Interest	0
D. Bond Discount (3.0%)	450,000
E. Bond Issuance Expenses	35,152
F. Bond Application Report Costs	40,000
G. Attorney General Fees (0.1% or \$9,500 max.)	9,500
H. TCEQ Bond Issuance Fee (0.25%)	<u>37,500</u>
Total Non-Construction Costs	<u>\$ 1,067,152</u>
 Total Bond Issue Requirement	 \$ 15,000,000

THE DISTRICT

Authority

The District was created as a conservation and reclamation district by the Harris County Commissioner's Court in 1967. On June 8, 1971, the District was granted authority to finance the construction of drainage facilities by virtue of a special act of the Texas Legislature, Acts 1971, 62nd Legislature. The District converted to a municipal utility district on July 23, 1975, by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts (particularly Chapters 49 and 54, Texas Water Code). The District is empowered to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District, as well as solid waste disposal services. In addition, the District is empowered, if approved by the electorate and the TCEQ, to establish, operate and maintain a fire department, either independently or with certain other utility districts. The TCEQ exercises continuing supervisory jurisdiction over the District.

Description

The District is located in northwest Harris County, Texas, approximately 20 miles from the central business district of the City, and wholly within the exclusive extraterritorial jurisdiction of the City of Houston. The District is located in Cypress-Fairbanks Independent School District. At the time of its creation, the District was made up of 395.7251 acres; subsequent annexations have resulted in the current area of the District of approximately 1,825.36 acres. The District consists of several noncontiguous tracts. Its general boundaries are Huffmeister Road to the west, Cypress-North Houston Road to the north, F.M. 1960 to the south, and Jones Road to the east. Elevations within the District range from 126 to 135 feet above mean sea level ("msl") and elevations in other areas range from 127 to 133 feet msl. White Oak Bayou traverses such area.

Management

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May of even-numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. All of the Directors currently reside or own land within the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darrell A. Barroso	President	May 2022
Lary J. Cangelose	Vice President	May 2024
Mike Kelley	Secretary	May 2022
Joe Morgan	Assistant Secretary	May 2024
Ben A. Solis	Treasurer	May 2024

The District employs a general manager, assistant general manager, and 17 other full-time office and field employees, as well as contracts for certain necessary services as follows:

General Manager: provides the general management and operations supervision for the District. The General Manager with the assistance of the assistant general manager provides the general management for plant operations, field, and office employees.

The District contracts with Municipal Business Services to manage the Construction and Debt Service Funds.

Auditor: The District's annual financial statements for the fiscal year ending December 31, 2019, have been prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A."

Engineer: The consulting engineer for the District is Lockwood, Andrews & Newnam, Inc. ("Engineer").

Legal Counsel: The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The legal fees to be paid 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 on the sale and delivery of the Bonds.

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P. ("Disclosure Counsel") serves as disclosure counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: The District has engaged Robert W. Baird & Co. Incorporated as financial advisor (the "Financial Advisor") to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

DEVELOPMENT OF THE DISTRICT

Initial development in the District began in 1966. To date, approximately 1,693 acres of the District's 1,825 total acres have been developed as residential properties, commercial properties, schools, or churches.

Approximately 1,069 acres in the District have been developed as the following single-family residential subdivisions: Barwood, Sections 1 and 3; Country Oaks; Crossbend Village; Cypress Creek Forest, Section 1; Cypress Falls Estates; Cypress Stone Village; Fallbrook Greens, Sections 1-3; Falls at White Oak; Hastings Green, Sections 1 and 2; Meisterwood; Oak Cliff Place, Sections 1 and 2; Ravensway Lake; Signature Estates; Tower Oaks Meadows, Sections 1-4; Tower Oaks Reserve; White Oak Landing, Sections 2 and 3; Wortham Falls, Sections 1-3; and Wortham Landing Sections 1, 2, and 4. Approximately 3,807 homes have been constructed in said subdivisions.

Approximately 129 acres in the District have been developed to serve multi-family residential properties. Multi-family development in the District includes, but is not limited to, the following nine apartment complexes (2,092 total units): Morningside Green Apartments (176 units); Hastings Place Apartments (176 units); Aurora Place Apartments (168 units); Trails of Eldridge Apartments (392 units); Windsor Cypress Apartments (209 units); Landmark (313 units); Mansions at Hastings Green Family (231 units); Mansions at Hastings Green Senior (262 units); and Village at Cypress Corner (165 units).

Approximately 419 acres in the District have been developed for commercial purposes. The District contains over 300 commercial establishments, including large-scale retail such as Wal-Mart, Target, Home Depot, and Kroger, numerous restaurants, pharmacies, retail shops, medical and dental clinics, banking centers, gas stations, hotel/motel lodging, a Montessori school, and various auto repair and collision centers, among other commercial establishments.

The balance of the District's acreage consists of approximately 76 acres for schools and churches and approximately 132 acres for parks, rights-of-way, streets, detention ponds, and District facilities. All developable acreage in the District is served by water, sewer and drainage facilities.

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Outstanding Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District. Various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the District.

Bonded Indebtedness

2020 Taxable Assessed Valuation.....	\$1,189,166,520 (a)
Direct Debt	
The Outstanding Bonds.....	\$ 26,530,000
The Bonds	<u>\$ 15,000,000</u>
Total.....	\$ 41,530,000
Estimated Overlapping Debt	<u>\$64,182,248 (b)</u>
Total Direct and Estimated Overlapping Debt	\$105,712,248 (b)
Direct Debt as Percentage of 2020 Taxable Assessed Valuation	3.49 %
Direct and Estimated Overlapping Debt as Percentage of 2018 Assessed Valuation	8.89 %
Debt Service Fund Balance (as of September 2, 2020).....	\$ 3,208,177 (c)
General Fund Balance (as of September 23, 2020)	\$ _____

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- (a) Represents the taxable assessed valuation of all taxable property in the District as of January 1, 2020, as provided by the Harris County Appraisal District. Such value includes \$160,390,729 of assessed valuation that remains uncertified and that is subject to protest, review, and downward adjustment prior to certification. See "TAX DATA" and "TAXING PROCEDURES."
- (b) See "Estimated Direct and Overlapping Debt Statement" below.
- (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in its Debt Service Fund.

Estimated Direct and Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or *Texas Municipal Reports* published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the assessed valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

Taxing Jurisdiction	Outstanding Debt August 31, 2020	Overlapping	
		Percent	Amount
Cypress-Fairbanks Independent School District	\$2,971,210,000	1.87%	\$ 55,561,627
Harris County	1,867,957,125	0.22%	4,109,506
Harris County Department of Education	6,320,000	0.22%	13,904
Harris County Flood Control District	83,075,000	0.22%	182,765
Harris County Hospital District	86,050,000	0.22%	189,310
Lone Star College System District	544,355,000	0.55%	2,993,953
Port of Houston Authority	514,174,397	0.22%	<u>1,131,184</u>
Total Estimated Overlapping Debt			\$ 64,182,248
The District (a)			<u>\$ 41,530,000</u>
Total Direct & Estimated Overlapping Debt (a)			\$105,712,248

Debt Ratios

	Percent of 2020 Assessed Taxable Value
Direct Debt (a)	3.49%
Direct and Estimated Overlapping Debt (a)	8.89%

(a) Includes the Outstanding Bonds and the Bonds.

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District does not have the authority from the voters within the District to assess, levy and collect ad valorem taxes for operation and maintenance purposes.

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements of the Outstanding Bonds as well as the principal and estimated interest requirements of the Bonds, based on an estimated interest rate of 2.50%.

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Combined Debt Service
		Principal	Interest	Debt Service	
2021	\$3,004,364	-	\$312,500	\$312,500	\$3,316,864
2022	3,006,544	-	375,000	375,000	3,381,544
2023	3,016,588	-	375,000	375,000	3,391,588
2024	3,021,100	-	375,000	375,000	3,396,100
2025	3,031,870	-	375,000	375,000	3,406,870
2026	3,049,448	-	375,000	375,000	3,424,448
2027	3,068,188	-	375,000	375,000	3,443,188
2028	3,087,365	-	375,000	375,000	3,462,365
2029	3,100,725	-	375,000	375,000	3,475,725
2030	3,126,050	-	375,000	375,000	3,501,050
2031	-	\$1,340,000	375,000	1,715,000	1,715,000
2032	-	1,375,000	341,500	1,716,500	1,716,500
2033	-	1,405,000	307,125	1,712,125	1,712,125
2034	-	1,440,000	272,000	1,712,000	1,712,000
2035	-	1,480,000	236,000	1,716,000	1,716,000
2036	-	1,515,000	199,000	1,714,000	1,714,000
2037	-	1,555,000	161,125	1,716,125	1,716,125
2038	-	1,590,000	122,250	1,712,250	1,712,250
2039	-	1,630,000	82,500	1,712,500	1,712,500
2040	-	1,670,000	41,750	1,711,750	1,711,750
Total	\$30,512,242	\$15,000,000	\$5,825,750	\$20,825,750	\$51,337,992

Estimated Average Annual Debt Service Requirement (2021–2040).....\$2,566,900

Estimated Maximum Annual Debt Service Requirement (2030)\$3,501,050

TAXING PROCEDURES

District Ability to Levy Taxes

The Board is authorized to levy a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount 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, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy and collect such a tax from year to year as described more fully above under the caption "THE BONDS – Source of Payment." The Board would be authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have not authorized the levy of such a maintenance tax.

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries, including, the surviving spouse of a disabled veteran who would have qualified for such an exemption if such exemption had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the

partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future. Currently, the District has no intention of taxing goods-in-transit personal property.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston (were it to annex the District), Harris County, and 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 abatements, which each entity will follow in granting tax abatements 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 the tax abatement. The terms of all tax abatement agreements must be substantially the same. Currently the District has taken no action to grant any tax abatement, and it has no information regarding the intent of either Harris County or the City of Houston to designate any part of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and certified to the District's tax assessor by the Chief Appraiser, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In addition, increases in the appraised value of residence homesteads are Constitutionally limited to ten percent (10%) annually regardless of the market value of the property.

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

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

Reappraisal of Property

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

Tax Payment Installments after Disaster

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

District and Taxpayer Remedies

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions, and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District

A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis, beginning with the 2020 tax rate. For the 2020 tax year, the Board has determined that the District's classification is that of a Developed District. The District cannot give any assurances as to what classification will be determined for tax years subsequent to 2020 or whether the District's future tax rates or financings of improvements and facilities will result in a new classification and new election calculation.

Levy and Collection of Taxes

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

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are the personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. 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 local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "TAX DATA - Estimated Overlapping Taxes."

A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax

lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS."

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy, and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds, and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, debt service requirements, and available funds.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. The District voters have not authorized the levy of such a maintenance tax.

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical assessed valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 09/30/20
2010	\$703,210,572	\$0.41	\$2,883,163	98.46%	2011	99.60%
2011	716,778,867	0.39	2,795,438	99.05	2012	99.63
2012	706,280,212	0.37	2,613,237	96.88	2013	98.47
2013	790,411,563	0.35	2,766,440	97.84	2014	98.83
2014	846,694,406	0.34	2,878,761	97.77	2015	98.93
2015	921,471,228	0.33	3,040,855	98.17	2016	99.09
2016	986,231,570	0.32	3,155,941	97.36	2017	98.17
2017	1,020,437,756	0.31	3,163,357	97.36	2018	97.82
2018	1,076,148,149	0.30	3,228,444	93.05	2019	93.05
2019	\$1,139,672,265	0.29	3,305,050		2020	

Analysis of Tax Base

The following table illustrates the composition of property located within the District during the past five years.

Type of Property	2020 Assessed Valuation	2019 Assessed Valuation	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation
Land		\$287,736,913	\$286,314,559	\$261,673,770	\$257,155,970
Improvements		911,548,418	846,584,154	816,351,803	778,625,852
Personal Property		108,306,568	104,062,486	101,145,310	106,138,389
Exemptions		(167,919,634)	(160,813,050)	(158,733,127)	(155,688,641)
Total		\$1,139,672,265	\$1,076,148,149	\$1,020,437,756	\$986,231,570

Principal Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2020:

Taxpayer	Types of Property	2020 Assessed Value
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Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2019 taxes levied upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Taxing Jurisdiction	2019 Tax Rate
Harris County	\$0.407130
Harris County Flood Control District	0.027920
Port of Houston Authority	0.010740
Harris County Hospital District	0.165910
Harris County Department of Education	0.005000
Lone Star College System District	0.107800
Cypress-Fairbanks Independent School District	1.370000
Harris County Emergency Services District No. 9	0.059800
The District	<u>0.290000</u>
Estimated Total Tax Rate	\$2.444300

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation which would be required to meet certain debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District occurs beyond the District's taxable assessed valuation as of January 1, 2020. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and no sale of additional bonds by the District. As outlined above under the caption "Historical Values and Tax Collection History," the District has collected an average annual percentage of its property taxes in excess of 95% for the last five years.

Estimated Average Annual Debt Service Requirement (2021-2040).....	\$2,566,900
Tax Rate of \$0.23 on the 2020 Taxable Assessed Valuation produces	\$2,598,329
Estimated Maximum Annual Debt Service Requirement (2030)	\$3,501,050
Tax Rate of \$0.31 on the 2020 Taxable Assessed Valuation produces	\$3,502,095

THE SYSTEM

Description of the System

The System is described below, based upon information from the Engineer:

- Water, Sewer, and Drainage Lines -

Proceeds of certain for the District's prior bond issues financed the construction of water, wastewater and drainage systems to serve approximately 1,069 acres of single-family lots; 409 acres of commercial reserves; 129 acres of multi-family residential; and 208 acres for schools, churches, parks, rights-of-way and detention ponds.

- Drainage Channel Improvements -

Proceeds of certain for the District's prior bond issues were used to finance the construction of drainage improvements to White Oak Bayou and the Harris County Flood Control Ditch No. E132-00-00.

The improvements to White Oak Bayou removed from the White Oak Bayou 100-year flood plain all developable land that was previously within the 100-year flood plain within the District, with the exception of a small part of Hastings Green and Hastings Green Park.

- Water Supply -

The system currently consists of four water plants with five active water wells, with capacities of 1,000, 1,500, 1,300, 1,300, and 1,500 gallons per minute (gpm), booster pumps, storage tanks, two elevated storage tanks, hydro pneumatic tanks, chlorination equipment, emergency interconnects and appurtenances.

According to the Engineer, the District's water supply system currently has water well capacity, ground storage tank capacity, booster pump capacity and hydro pneumatic tank capacity adequate to serve the District up to 12,714 single-family equivalent connections. The District's existing elevated storage tank capacity is adequate to meet the District's System requirements. At ultimate build out, the District anticipates 8,585 connections, plus 2,500 connections from MUD 248 (hereinafter defined) for a total of 11,085.

- Wastewater Facilities -

Proceeds of certain of the District's prior bond issues financed the District's pro rata share of wastewater treatment plant no. 1 with total capacity of 2,000,000 gallons per day (gpd) (the "Barwood WWTP"). Harris County MUD No. 69 ("MUD 69") has contracted with the District for treatment of up to 625,000 gpd in the Barwood WWTP, leaving 1,375,000 gpd for the District.

Due to more stringent treatment standards required by the TCEQ, the Barwood WWTP capacity has been down rated to 1.6 MGD with MUD 69 retaining 0.5 mgd and the District retaining 1.1 mgd. According to the Engineer, the capacity available to the District is adequate for full development of the remaining properties within the Barwood subdivision, certain commercial development and approximately 38 acres of the Ravensway subdivision.

In addition, proceeds of certain for the District's prior bond issues were used to finance the construction of the District's share of the 3 million gpd wastewater treatment plant no. 2 (the "Hastings Green WWTP"). Harris County MUD No. 222 ("MUD 222") has purchased 135,000 gpd of permanent wastewater treatment capacity in the Hastings Green WWTP, and Harris County Municipal Utility District No. 248 ("MUD 248") has purchased 141,750 gpd of permanent wastewater treatment capacity in the Hastings Green STP, the first and second phases of the 3 million gpd with 2.055 million gpd now owned by the District. The District's capacity in the two plants can provide service to approximately 10,015 single-family equivalent connections within the District. The District anticipates 8,585 connections at ultimate build out.

Contracts for Service with Others

- Water Supply and Waste Disposal Contract with MUD 69, dated June 11, 1973, as amended -

Water Supply and Waste Disposal Agreement dated June 11, 1973, entered into by and between the District and MUD 69. Under this agreement, the District provided water supply and continues to provide wastewater treatment and disposal services to MUD 69. MUD 69 is obligated to properly maintain and repair all sewage lines and facilities within its boundaries, and the District is obligated to properly operate and maintain the remainder of the sewage treatment facilities. For wastewater treatment and disposal, MUD 69 is obligated to pay the District, on a monthly basis, per connection to MUD 69's waste collection system, an amount that is equal to \$0.50 less than the rate charged by the District per connection of like classification within its boundaries. The contract was renewed through December 31, 2053. The contract was amended to supply only wastewater treatment to MUD 69. The District no longer supplies water to MUD 69, except on an emergency basis.

- Emergency Water Supply Contract with Timberlake Improvement District
("Timberlake"), Dated November 16, 1977 as amended, September 9, 1980 -

Pursuant to this Contract, each district is to provide emergency water supply to the other for a period of 40 years from the date of the Contract. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 15 days. Timberlake is obligated to pay all costs associated with interconnecting the District's water systems, including a locked cut-off valve required to remain closed in the absence of an "emergency." Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons, and the Contract is to remain in force for 40 years.

- Emergency Water Supply Contract with MUD 69, Dated December 18, 1982,
as amended, November 29, 2001 -

Pursuant to this Contract, each district is to provide emergency water supply to the other. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 20 days. Lines to interconnect the District's water systems were in existence at the time of the Contract execution. Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons and the Contract is to remain in force for 10 year periods unless cancelled a year in advance.

- Emergency Water Supply Contract with Northwest Harris County Municipal Utility District No. 29
("NWHCMUD 29") Dated February 10, 1999 -

Pursuant to this Contract, each district is to provide emergency water supply to the other. Each district may receive water from the other when the receiving district experiences an "Emergency," defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district's water production capacity for a period of 20 days. Lines to interconnect the District's water systems were in existence at the time of the Contract execution. Water supplied under this Contract is to be paid for at the rate of \$1.00 per 1,000 gallons and the Contract is to remain in force for 10 year periods unless cancelled a year in advance.

- Emergency Water Supply Contract with Harris County Municipal MUD No. 222
Dated December 16, 1992 -

Pursuant to this Contract, each district is to provide emergency water supply to the other for a period of 40 years from the date of the Contract. Each district may receive water from the other when the receiving district

experiences an “Emergency,” defined as a mechanical or electrical failure resulting in the loss of at least 50% of the receiving district’s water production capacity for a period of 10 days. Water supplied under this contract is sold for \$1.00 per 1,000 gallons, for either district.

- Water Service Agreement with Emerald Forest Utility District (“Emerald Forest”) dated July 23, 1977 -

On July 23, 1997 and through the third amendment, the District has entered into a permanent water supply agreement with Emerald Forest. The total water supply is 35,000 gallons per day.

- Permanent Water Supply Contract with Harris County Municipal Utility District No. 248 -

On August 30, 2000, the District entered into a long term water supply agreement with MUD 248 which allows MUD 248 to purchase 400 equivalent single family connections of water supply resulting in a water supply of 140,000 gallons per day. MUD 248 also has an option to purchase existing additional capacity in the District’s water system up to a maximum of 280,000 gallons per day of water supply. By amendments dated June 13, 2001, March 12, 2003, December 8, 2004 and February 28, 2007, MUD 248 obtained the right to purchase an additional 2,000 equivalent single-family connections of water supply capacity. Of these 2,000 equivalent single-family connections available, MUD 248 has purchased all equivalent single-family connections. Thus, the purchase of all water connections under the amendments has been completed.

- Contracts for Financing, Construction and
Operation of Regional Wastewater Treatment Facility with MUD 222 and MUD 248 -

The District has entered into a series of agreements (the “Contracts”) for providing for expansion of the Hastings Green STP to accommodate regional wastewater treatment by the District to the property located in MUD 222 and MUD 248. The Contracts originally called for the expansion of the 1.5 mgd Hastings Green STP into a 5 mgd wastewater treatment regional plant. The 2002 expansion increased the plant treatment capacity from 1.5 mgd to 3 mgd. Both MUD 222 and MUD 248 have purchased permanent capacity in the plant (see “Wastewater Facilities”). Should MUD 222, MUD 248 or the District require additional capacity, the Contracts provide for subsequent expansion of the Hastings Green STP and for cost sharing among the districts requesting additional capacity. By supplemental contracts dated September 25, 2002, and March 12, 2003 (amended December 8, 2004) MUD 248 is authorized to purchase an additional 2,000 equivalent single-family connections of wastewater treatment capacity in the STP. Of these 2,000 equivalent single-family connections, MUD 248 has purchased all equivalent single-family connections. Thus, the purchase of all wastewater connections under the supplemental contracts, as amended, has been completed.

Subsidence and Conversion to Surface Water Supply

The District is located within Area 3 of the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. The District’s ability to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a Regulatory Plan, which was subsequently amended on May 8, 2013 (the “Regulatory Plan”), to reduce groundwater withdrawal through conversion to surface water consumption by the areas within the Subsidence District’s boundaries. Under the Regulatory Plan, areas within Area 3 of the Subsidence District’s boundaries must have been converted to 30% surface water currently, 60% surface water by 2025 and 80% surface water by 2035. Water permittees, including the District, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The District is also located within the boundaries of the North Harris County Regional Water Authority (the “Water Authority”). The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District’s Area 3 in accordance with the Subsidence District’s Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District’s Regulatory Plan, the Water Authority has adopted a groundwater reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks, and pumping stations to transport and distribute surface water to the areas within the Water Authority’s boundaries (the “Surface Water Facilities”). The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority is currently assessing a groundwater pumpage fee in the amount of \$4.25 per 1,000 gallons of water, which applies to

certain water well permittees in its boundaries, including the District. The Water Authority has issued ten series of Senior Lien Revenue Bonds to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee. The groundwater pumpage fee may increase in the future.

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of Phase I of the Surface Water Facilities is being paid through the pumpage fee. For future phases of the Surface Water Facilities, current rules of the Water Authority allow the District to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by the District through the issuance of bonds of which \$1,535,970,000 principal amount remains outstanding. The Water Authority may issue more bonds in the future.

The District cannot predict the amount, or level of fees and charges, which may be due the Water Authority in the future, but anticipates the need to pass such fees through to its customers resulting in higher water rates. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Water Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) comply with its GRP.

No representation is made that the Water Authority will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, the District would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

Operating History

The following is a summary of the District's operating fund for the previous five fiscal years. The figures below were obtained from the District's annual audited financial reports, reference to which is hereby made. See "APPENDIX A."

	For the Fiscal Year Ended December 31				
<u>Revenues</u>	2019	2018	2017	2016	2015
Water Service	\$ 936,906	\$991,363	\$931,395	\$923,491	\$984,804
Wastewater Service	2,305,953	2,307,234	2,334,959	2,335,420	2,372,358
Regional Water Authority Fee	2,470,393	2,288,384	1,888,555	1,604,918	1,458,256
Sales Tax Revenues	1,119,902	1,139,429	1,103,640	1,124,010	1,133,895
Penalty and Interest	53,863	54,472	50,304	49,759	73,887
Tap Connection and Inspection Fees	56,344	139,018	61,453	258,605	285,275
Miscellaneous Revenues	385,749	344,215	346,561	426,738	394,149
TOTAL REVENUES	\$ 7,329,110	\$7,264,115	\$6,716,867	\$6,722,941	\$6,702,624
 <u>Expenditures</u>					
Personnel	\$ 1,998,741	\$1,876,891	\$1,777,914	1,618,616	\$1,574,231
Professional Fees	413,193	337,269	322,280	346,659	202,779
Contracted Services	15,221	20,481	12,114	15,922	14,896
Utilities	738,557	676,268	906,907	986,166	975,817
Regional Water Auth. Assessment	2,701,703	2,548,682	2,113,830	1,790,969	1,691,860
Repairs and Maintenance	638,222	594,890	526,347	678,380	712,794
Other	704,682	716,100	696,885	814,463	707,804
Capital Outlay	117,758	88,594	80,729	65,416	1,137,347
TOTAL EXPENDITURES	\$ 7,328,077	\$6,859,175	\$6,437,006	\$6,316,591	\$7,017,528

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any political subdivision other than the District. The Bonds are secured by a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See “THE BONDS – Source and Security for Payment.” The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing and commercial retail industries, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: Development in the District is substantially complete, but maintenance of taxable values in the District is related to the vitality of the residential housing industry in the Greater Houston Metropolitan Area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices, credit availability and consumer demand. Further declines in the price of oil could adversely affect job stability, wages, and salaries, thereby negatively affecting the demand for housing and the values of existing homes. If the District were to experience a significant number of residential foreclosures, the value of all homes in the District could be adversely affected. The District includes a number of large scale retail taxpayers. If any such retailers were to cease operation, such facilities may be difficult to re-lease or re-purpose, resulting in decreases in the assessed values thereof. See “DEVELOPMENT OF THE DISTRICT.”

Maximum Impact on District Tax Rate: 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 property owners within the District to pay their taxes. The taxable assessed valuation of all taxable property located within the District as of January 1, 2020, is \$1,189,166,520. After issuance of the Bonds, the estimated maximum annual debt service requirement of the Outstanding Bonds and the Bonds will be \$3,501,050 (2030), and the estimated average annual debt service requirement of the Outstanding Bonds and the Bonds will be \$2,566,900 (2021–2040). Based on the District’s taxable assessed valuation as of January 1, 2020, no use of funds on hand, and a tax collections rate of 95%, a tax rate of \$0.31 per \$100 assessed valuation would be necessary to pay the estimated maximum annual debt service requirement, and a tax rate of \$0.23 per \$100 assessed valuation would be necessary to pay the estimated average annual debt service requirement. See “DISTRICT DEBT” and “TAX DATA.”

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. Increases in the District’s tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of improvements within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Recent Extreme Weather: Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater

Houston area, including the District, 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 representatives of the District, there were approximately 130 homes within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey. Furthermore, according to representatives of the District, there was no damage to the District’s utility systems or interruption of service due to Hurricane Harvey. The Gulf Coast region where the District is located is subject to occasional destructive weather events, and there is no assurance that the District will not suffer damages from such destructive weather events in the future.

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

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

Specific Flood Type Risks

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

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

Infectious Disease Outlook – COVID-19

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State

business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. In addition to the actions by the State and federal officials, certain local officials have declared a local state of disaster and have issued “shelter-in-place” orders. Many of the federal, State and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which negatively affects the operation of businesses and the State and national economies.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within the State. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. The State may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the ..

The District continues to monitor the spread of COVID-19 and the potential impact of COVID-19 on the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

Dependence on the Oil and Gas Industry

Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation’s oil trading. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact the businesses of taxpayers and the property values in the District, resulting in less local tax revenue. Texas may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in Texas and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted.

Tax Collections and Foreclosure Remedies

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney’s fees and other costs of collecting any such taxpayer’s delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a 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 against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor’s confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years;

and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

If the petitioning District were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

The District may not be placed into bankruptcy involuntarily.

Marketability of the Bonds

The District has no understanding with the Initial Purchaser 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 may be greater than the difference between the bid and asked price of bonds of

comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold and traded in the secondary market.

Competitive Nature of Houston Residential Housing Markets

The residential housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that the construction of improvements, other than those which currently exist within the District, will be initiated or completed. The likelihood of the construction of future residential improvements is affected by most of the factors discussed in this section, and such likelihood is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Future Debt

The District's voters have authorized the District's issuance of a total of \$75,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System, \$36,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District, and \$30,000,000 for the purpose of acquiring or constructing the System or for the purpose of refunding bonds issued by the District.

The Bonds are the nineteenth series of unlimited tax bonds to be issued by the District for the purpose of acquiring or constructing the System. The District has also issued nine series of unlimited tax bonds for refunding purposes. After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$1,610,000 principal amount for the System, \$13,670,000 principal amount for refunding only, and \$15,000,000 principal amount for the System or for refunding.

In the Bond Order, the District has reserved the right to issue the remaining principal amounts of such authorized but unissued bonds as well as any additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds authorized for waterworks, sanitary sewer and drainage facilities, and for refunding purposes which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The District's Engineer estimates that authorized bonds which will remain unissued, after issuance of the Bonds, will be adequate to finance the construction of all water, sewer and drainage facilities needed to provide service to all of the currently undeveloped portions of the District.

Future and Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

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. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance.

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR is effective on June 20, 2020, and is the subject of ongoing litigation.

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

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.

Bond Insurance

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The District has yet to determine whether an insurance policy will be purchased with the Bonds, which would be at the discretion and expense of the Initial Purchaser. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such

acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the bond insurer at such time and in such amounts as would have been due absence such prepayment 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 and the bond insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the bond insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the bond insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

The obligations of the bond insurer are contractual obligations and in an event of default by the bond insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District or the Initial Purchaser (hereinafter defined) have made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the bond insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE AND RATING" herein for further information provided by the bond insurer and the Policy, which includes further instructions for obtaining current financial information concerning the bond insurer.

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General of Texas has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District.

Delivery of the Bonds is also subject to delivery of the legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District, to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also state that interest on the bonds is excludable from gross

income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions. The opinion of Bond Counsel is expected to be reproduced on the back panel of the Bonds over a certification of the secretary of the Board of the District attesting that such legal opinion was dated as of the date of delivery of and payment for the Bonds and is a true and correct copy of the original opinion. Errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds.

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P., has reviewed the information appearing in this Official Statement under the captions "THE BONDS (except "Book-Entry-Only System")," "THE DISTRICT – Authority," and "– Attorney," "TAXING PROCEDURES," "THE SYSTEM – Contracts for Service with Others," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein.

Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein.

NO MATERIAL ADVERSE CHANGE

The obligations of the Initial Purchaser 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 subsequent to the date of sale from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE

The District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

TAX MATTERS

Tax Exemption

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit.

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

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

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

which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered 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 specified events to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data annually 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 the heading "DISTRICT DEBT," "TAX DATA," and "APPENDIX A." The District will update and provide this information to the MSRB within six months after the end of each fiscal year. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents on the EMMA system, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if such audit is completed by the required time. If audited financial statements are not available by the required time, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements 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 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15)

incurrence of a financial obligation of the District or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or an obligated person, any of which affect bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District or an obligated person, any of which reflect financial difficulties. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the information only to the MSRB in an electronic format and accompanied by identifying information as prescribed by the MSRB Board. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT – Description" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of the Engineer as expert in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the District's Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the authority of the Tax Assessor/Collector as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of property appraisal.

The information contained in this Official Statement relating to the District's financial statements, in particular the information in "APPENDIX A," has been provided by the Auditor and has been included herein in reliance upon the Auditor's authority and knowledge concerning the matters described herein.

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notify the District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions, and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of

such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Harris County Fresh Water Supply District No. 61 as of the date shown on the first page hereof.

/s/ _____
President, Board of Directors
Harris County Fresh Water Supply District No. 61

ATTEST:

/s/ _____
Secretary, Board of Directors
Harris County Fresh Water Supply District No. 61

APPENDIX A
Financial Statements of the District