

OFFICIAL STATEMENT DATED MAY 21, 2019

NEW ISSUE-BOOK-ENTRY-ONLY

**RATINGS: Insured BAM S&P “AA” (Stable Outlook); Underlying Rating: Moody’s “A2”**  
See “MUNICIPAL BOND RATINGS” and “BOND INSURANCE”

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

THE BONDS HAVE NOT BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.  
See “TAX MATTERS – Not Qualified Tax-Exempt Obligations for Financial Institutions.”

**\$18,430,000**

**Harris County Municipal Utility District No. 374**  
(A Political Subdivision of the State of Texas Located in Harris County, Texas)

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**Dated: June 1, 2019**

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

The \$18,430,000 Harris County Municipal Utility District No. 374 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”), constitute obligations solely of Harris County Municipal Utility District No. 374 (the “District”) and are not obligations of the State of Texas (the “State”), Harris County, Texas, the City of Houston, Texas, or any entity other than the District. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Interest on the Bonds accrues from the date of delivery, currently anticipated to be June 18, 2019, and is payable September 1, 2019, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY-SYSTEM.” The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The Bonds are being issued to refund a portion of the District’s outstanding Unlimited Tax and Refunding Bonds, Series 2012, Unlimited Tax Bonds, Series 2012A, and Unlimited Tax Refunding Bonds, Series 2013, to achieve a debt service savings, and to pay the costs of issuing the Bonds. See “PLAN OF FINANCING.”

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



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**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS,  
REDEMPTION PROVISIONS and CUSIP NUMBERS**  
(see inside cover page)

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

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

The Bonds are offered when, as and if issued by the District and accepted by the initial purchasers thereof named below (the “Underwriters”) subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain other matters will be passed upon, on behalf of the Underwriters, by McCall, Parkhurst & Horton L.L.P., Austin and Houston, Texas, Underwriters’ Counsel. The Bonds in definitive form are expected to be available for delivery through DTC on June 18, 2019.

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

**MATURITY SCHEDULE**  
(Due September 1)

**CUSIP PREFIX: 413897**

<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield<sup>(b)</sup></b>	<b>CUSIP Suffix<sup>(c)</sup></b>	<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield<sup>(b)</sup></b>	<b>CUSIP Suffix<sup>(c)</sup></b>
2019	\$ 210,000	2.000%	1.850%	NX3	2029 <sup>(a)</sup>	\$1,335,000	3.000%	2.640%	PH6
2020	45,000	3.000%	1.950%	NY1	2030 <sup>(a)</sup>	1,405,000	3.000%	2.790%	PJ2
2021	405,000	3.000%	1.920%	NZ8	2031 <sup>(a)</sup>	895,000	3.000%	2.900%	PK9
2022	435,000	3.000%	1.960%	PA1	2032 <sup>(a)</sup>	985,000	3.000%	3.020%	PL7
2023	780,000	3.000%	2.000%	PB9	2033 <sup>(a)</sup>	865,000	3.000%	3.080%	PM5
2024	830,000	3.000%	2.100%	PC7	2034 <sup>(a)</sup>	955,000	3.000%	3.160%	PN3
2025	1,145,000	3.000%	2.250%	PD5	2035 <sup>(a)</sup>	965,000	3.000%	3.180%	PP8
2026	1,175,000	3.000%	2.340%	PE3	***	***	***	***	***
2027	1,235,000	4.000%	2.400%	PF0	2039 <sup>(a)</sup>	1,560,000	3.125%	3.310%	PR4
2028 <sup>(a)</sup>	1,280,000	3.000%	2.530%	PG8					
\$1,925,000 3.125% Term Bond Due September 1, 2038 <sup>(a)</sup> Yield 3.280% <sup>(b)</sup> CUSIP Suffix PQ6 <sup>(c)</sup>									

- (a) Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2028, in whole or from time to time in part, on September 1, 2027, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2038 (the “Term Bond”) are also subject to mandatory sinking fund redemption. See “THE BONDS - Redemption.”
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriters. The yields may be changed at any time at the discretion of the Underwriters.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Underwriters, the District, or Public Finance Group LLC, the District’s financial advisor (the “Financial Advisor”), is responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriting

The Underwriters listed on the cover page of this Official Statement have agreed, subject to certain conditions in the bond purchase agreement, to purchase the Bonds from the District for \$18,581,073.45 (an amount equal to the principal amount of the Bonds, plus a net original issue premium of \$311,048.10, less an Underwriters' discount of \$159,974.65). The Underwriter's obligation is to purchase all of the Bond, if any are purchased. See "PLAN OF FINANCING – Sources and Uses of Funds."

### Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriters 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 UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

### Securities Laws

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

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

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

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

## **MUNICIPAL BOND RATINGS**

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

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com). BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

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

#### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

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

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

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any

information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

*Additional Information Available from BAM*

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

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

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

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

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## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

- The District..... Harris County Municipal Utility District No. 374 (the "District"), located in Harris County, Texas, and a political subdivision of the State of Texas, was created by order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), effective September 19, 2001 and confirmed pursuant to an election held within the District on November 6, 2001. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, and collect and treat wastewater and operates pursuant to Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution, both as amended. See "THE DISTRICT – General."
- Location ..... The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. The District's northern boundary is the Union Pacific railroad track, western boundary is Fry Road and Harris County Municipal Utility District No. 371, eastern boundary is Harris County Municipal Utility District No. 500, and southern boundary is Harris County Municipal Utility District No. 433. Access to the District is provided by U.S. Hwy 290 to Fry Road.
- The Developer ..... The District was developed by Mischer Development, LP ("Mischer"), a Texas limited partnership composed of Mischer Investments, L.P., a Texas limited partnership ("Investments") (owning a 99% limited partner interest), and Mischer Management, L.L.C., a Texas limited liability company ("Management") (owning a 1% general partner interest).
- Status of Development..... Of the approximately 732 acres within the District, approximately 692 acres are developable. All of the developable acreage within the District has been developed with utility facilities as the single-family residential subdivisions, multi-family residential housing and retail/commercial development known as Cypress Creek Lakes. Development within the District includes 979 developed single-family lots, all of which have completed homes, on approximately 478.81 acres. Additional development within the District includes two apartment complexes containing 620 apartment units on approximately 40.20 acres. Additionally, the utility facilities serving approximately 25.6 acres of retail/commercial acres have been constructed, of which approximately 17.86 acres contain above ground commercial/retail improvements, including two retail and restaurant strip centers, a storage facility, a daycare center and a gas station. In addition, the District contains eight lakes, two recreation centers on approximately 3.38 acres, and District facility sites on approximately 4.50 acres. The District also contains approximately 130 acres of Cypress-Fairbanks Independent School District ("Cypress-Fairbanks ISD") school facilities, which are exempt from ad valorem taxation. Approximately 9.74 acres of apartments are currently under design. See "THE DISTRICT – Status of Development."

### THE BONDS

- Description ..... The Bonds in the aggregate principal amount of \$18,430,000 mature serially in varying amounts on September 1 of each of the years 2019 through 2035, inclusive, and 2039, and as a Term Bond which matures September 1, 2038, as set forth on the inside cover page hereof. Interest accrues from the date of delivery, currently anticipated to be June 18, 2019, at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2019, and each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
- Redemption ..... Bonds maturing on and after September 1, 2028, are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2027, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. The Term Bond maturing September 1, 2038 is also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
- Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See "TAXING PROCEDURES." **The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas; Harris County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record.....	The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds."
Authority for Issuance .....	The Bonds are being issued pursuant to Article XVI, Section 59, of the Texas Constitution and the general laws of the State, Chapter 1207 of the Texas Government Code, as amended, Chapters 49 and 54, of the Texas Water Code, as amended, City of Houston Ordinance 97-416, and a resolution authorizing the issuance of the Bonds adopted by the Board of Directors of the District and a pricing certificate to be executed by the authorized representative designated in the resolution (the resolution and pricing certificate are collectively referred to herein as the "Bond Resolution"). See "THE BONDS – Authority for Issuance."
Use of Proceeds .....	Proceeds from the sale of the Bonds will be used to (i) establish an escrow fund to refund a portion of the District's Unlimited Tax and Refunding Bonds, Series 2012, Unlimited Tax Bonds, Series 2012A, and Unlimited Tax Refunding Bonds, Series 2013, to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."
Bonds Authorized But Unissued .....	At an election held within the District on November 6, 2001, the voters within the District approved the issuance of \$37,200,000 in unlimited tax bonds for construction of water, sanitary sewer and drainage facilities, of which \$410,000 in unlimited tax bonds remain authorized but unissued. The voters of the District also authorized the issuance of refunding bonds in a total aggregate principal amount of \$24,200,000. The Bonds are the seventh series of refunding bonds issued by the District and will use \$726,073.45 of the District's voted authorization of refunding bonds. After the issuance of the Bonds, \$19,277,288.57 of voted authorization of refunding bonds will remain unissued. Additionally, at an election held in the District on May 15, 2004, the voters within the District approved the issuance of \$9,500,000 in unlimited tax bonds for the acquisition and construction of parks and recreational facilities, of which \$5,160,000 unlimited tax bonds remain authorized but unissued. See "FINANCIAL STATEMENT - Outstanding Bonds – Table 6" and "THE BONDS - Issuance of Additional Debt."
Municipal Bond Ratings and Bond Insurance .....	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy to be issued by Build America Mutual ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A2" to the Bonds.
Tax Exemption .....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in "TAX MATTERS" herein, including the alternative minimum tax on corporations. The Bonds will not be designated as "qualified tax-exempt obligations" for financial institutions.
Not Qualified Tax-Exempt Obligations .....	The Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions.

**INCLEMENT WEATHER / HURRICANE HARVEY**

General.....	The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.
Impact on District.....	The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to Inframark Water & Infrastructure Services (the "Operator"), there were no interruptions of water and sewer service as a result of Hurricane Harvey. According to BGE, Inc. (the "Engineer"), the District's system did not sustain any material damage from Hurricane Harvey. The District did not receive reports that any homes or improvements within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Bond Counsel ..... Allen Boone Humphries Robinson LLP, Houston, Texas.  
Underwriters' Counsel..... McCall, Parkhurst & Horton L.L.P., Austin and Houston, Texas  
Financial Advisor ..... Public Finance Group LLC, Austin, Texas.  
Escrow Agent ..... BOKF, NA, Dallas, Texas.  
Paying Agent/Registrar..... BOKF, NA, Dallas, Texas.  
Verification Agent ..... Public Finance Partners LLC, Minneapolis, Minnesota.

**INVESTMENT CONSIDERATIONS**

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

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**SELECTED FINANCIAL INFORMATION**  
**(Unaudited)**

2018 Certified Assessed Valuation		451,823,439 <sup>(a)</sup>
Gross Debt Outstanding (after the issuance of the Bonds)	\$	37,675,000 <sup>(b)</sup>
Ratio of Gross Debt to 2018 Certified Assessed Valuation		8.34%
2018 Tax Rate per \$100 Assessed Valuation		
Debt Service	\$	0.5655
Maintenance		0.2545
Total 2018 Tax Rate	\$	0.8200 <sup>(c)</sup>
Debt Service Fund Balance (as of May 9, 2019)	\$	2,829,652 <sup>(d)</sup>
Percentage of current tax collections (Tax Years 2008-2018)		99.66% <sup>(e)</sup>
Percentage of total tax collections (Tax Years 2008-2018)		100.03% <sup>(e)</sup>
Average Annual Debt Service Requirement of the Bonds and Remaining Outstanding Bonds ("Average Requirement") (2018-2039, inclusive)	\$	2,464,303
Tax Rate Required to pay Average Requirement based upon the 2018 Certified Assessed Valuation at 95% collections		\$0.58 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Remaining Outstanding Bonds ("Maximum Requirement") (2032)	\$	2,687,789
Tax Rate Required to pay Maximum Requirement based upon the 2018 Certified Assessed Valuation at 95% collections		\$0.63 /\$100 AV
Number of active connections as of April 1, 2019		
Single Family - Occupied		977
Apartments/Townhomes (620 units of which 607 units are occupied)		2
Commercial		12
Irrigation		19
Other		<u>6</u>
<b>Total Number of Active Connections</b>		<b>1,016</b>
Estimated Population as of April 1, 2019		4,937 <sup>(f)</sup>

(a) Assessed valuation of the District as of January 1, 2018 as certified by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."

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

(c) The District levied a 2018 tax rate of \$0.82 per \$100 assessed valuation.

(d) Unaudited as of May 9, 2019. Neither Texas law nor the Bond Resolution requires the District to maintain any particular sum in the debt service fund.

(e) See "TAX DATA – Tax Collections."

(f) Based on 3.5 residents per active occupied single-family connection and 2.5 residents per occupied apartment and townhome unit. As of April 15, 2019 the apartments were 97.9% occupied.

**OFFICIAL STATEMENT**  
relating to

**\$18,430,000**

**Harris County Municipal Utility District No. 374**  
(A Political Subdivision of the State of Texas Located in Harris County, Texas)

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 374 (the "District") of its \$18,430,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to a resolution authorizing the issuance of the Bonds adopted by the Board of Directors of the District on May 9, 2019, and a pricing certificate to be executed by the authorized representative designated in the resolution (the resolution and pricing certificate are collectively referred to herein as the "Bond Resolution"), Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas (the "State") including Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, and the City of Houston Ordinance No. 97-416.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District, and its finances. Copies of such documents may be obtained from the District c/o Allen Boone Humphries Robinson LLP, Attention: Susan Edwards, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, or from the District's Financial Advisor, Public Finance Group LLC, 900 South Capital of Texas Highway, Building IV, Suite 475, West Lake Hills, Texas 78746, upon payment of reasonable copying, mailing and handling charges.

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

**PLAN OF FINANCING**

**Purpose**

At elections held within the District on November 6, 2001 and May 15, 2004, the District's voters authorized the issuance of an aggregate principal amount of \$37,200,000 principal amount of unlimited tax bonds for the construction of the District's water, sanitary sewer and drainage system ("Utility Facilities") and \$9,500,000 principal amount of unlimited tax bonds to construct park and recreational facilities. To date, the District has issued eight installments of unlimited tax bonds to acquire Utility Facilities in the aggregate principal amount of \$36,790,000 and \$410,000 principal amount of unlimited tax bonds remain authorized but unissued. The District has issued two installments of unlimited tax bonds to acquire park and recreational facilities in the principal amount of \$4,340,000 and \$5,160,000 principal amount of unlimited tax bonds remain authorized but unissued for such purposes. On November 6, 2001, voters of the District authorized the issuance of a total of \$24,200,000 principal amount of unlimited tax bonds for the purpose of refunding the District's outstanding debt, and \$19,277,288.57 principal amount of unlimited tax refunding bonds will remain authorized but unissued after the issuance of the Bonds.

The Bonds are being issued to achieve a debt service savings in the years 2019 through 2039, inclusive, by refunding \$11,695,000 of the District's outstanding Unlimited Tax and Refunding Bonds, Series 2012, \$3,100,000 of the District's outstanding Unlimited Tax Bonds, Series 2012A, and 3,060,000 of the District's outstanding Unlimited Tax Refunding Bonds, Series 2013 (collectively, the "Refunded Bonds"). The proceeds of the Bonds will also be used to pay the cost of issuance of the Bonds. See "Sources and Uses of Funds" herein.

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## The Refunded Bonds

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

Year	Series 2012	Series 2012A	Series 2013	Total
2021	\$ -	\$ -	\$ 360,000 <sup>(d)</sup>	\$ 360,000
2022	-	-	390,000 <sup>(d)</sup>	390,000
2023	340,000	-	395,000 <sup>(e)</sup>	735,000
2024	580,000	-	205,000 <sup>(e)</sup>	785,000
2025	890,000	-	210,000 <sup>(f)</sup>	1,100,000
2026	915,000	-	215,000 <sup>(f)</sup>	1,130,000
2027	960,000	-	230,000 <sup>(g)</sup>	1,190,000
2028	990,000	-	245,000 <sup>(g)</sup>	1,235,000
2029	1,045,000	-	255,000	1,300,000
2030	825,000 <sup>(a)</sup>	-	555,000	1,380,000
2031	875,000 <sup>(a)</sup>	-	-	875,000
2032	975,000 <sup>(a)</sup>	-	-	975,000
2033	860,000 <sup>(b)</sup>	-	-	860,000
2034	960,000 <sup>(b)</sup>	-	-	960,000
2035	980,000 <sup>(b)</sup>	-	-	980,000
2036	160,000 <sup>(c)</sup>	-	-	160,000
2037	165,000 <sup>(c)</sup>	-	-	165,000
2038	175,000 <sup>(c)</sup>	1,500,000	-	1,675,000
2039	-	1,600,000	-	1,600,000
	<b><u>\$ 11,695,000</u></b>	<b><u>\$ 3,100,000</u></b>	<b><u>\$ 3,060,000</u></b>	<b><u>\$ 17,855,000</u></b>
Redemption Date:	9/1/2019	9/1/2019	9/1/2019	

(a) Term Bond in total par amount of \$2,675,000, to mature on September 1, 2032.

(b) Term Bond in total par amount of \$2,800,000, to mature on September 1, 2035.

(c) Term Bond in total par amount of \$500,000, to mature on September 1, 2038.

(d) Term Bond in total par amount of \$750,000, to mature on September 1, 2022.

(e) Term Bond in total par amount of \$600,000, to mature on September 1, 2024.

(f) Term Bond in total par amount of \$425,000, to mature on September 1, 2026.

(g) Term Bond in total par amount of \$475,000, to mature on September 1, 2028.

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## The Remaining Outstanding Bonds

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

Year	Series 2012	Series 2012A	Series 2012B	Series 2013	Series 2014	Series 2015	Series 2016	Series 2016A	Series 2018	The Bonds*	Total
2019	\$ 300,000	\$ 5,000	\$ -	\$ 360,000	\$ 280,000	\$ 20,000	\$ 140,000	\$ 10,000	\$ 55,000	\$ 210,000	\$ 1,380,000
2020	315,000	-	-	360,000	285,000	20,000	140,000	10,000	85,000	45,000	1,260,000
2021	325,000	-	-	-	335,000	20,000	165,000	10,000	85,000	405,000	1,345,000
2022	335,000	-	-	-	325,000	25,000	165,000	10,000	90,000	435,000	1,385,000
2023	-	-	-	-	370,000	25,000	160,000	10,000	90,000	780,000	1,435,000
2024	-	-	-	-	385,000	25,000	185,000	10,000	95,000	830,000	1,530,000
2025	-	-	-	-	-	175,000	185,000	10,000	95,000	1,145,000	1,610,000
2026	-	-	-	-	-	170,000	180,000	10,000	100,000	1,175,000	1,635,000
2027	-	-	-	-	-	195,000	180,000	10,000	105,000	1,235,000	1,725,000
2028	-	-	-	-	-	195,000	175,000	10,000	105,000	1,280,000	1,765,000
2029	-	-	-	-	-	215,000	200,000	15,000	110,000	1,335,000	1,875,000
2030	-	-	-	-	-	215,000	195,000	15,000	115,000	1,405,000	1,945,000
2031	-	-	-	585,000	-	220,000	220,000	15,000	120,000	895,000	2,055,000
2032	-	-	-	590,000	-	230,000	215,000	15,000	120,000	985,000	2,155,000
2033	-	-	-	595,000	-	255,000	215,000	15,000	125,000	865,000	2,070,000
2034	-	-	-	300,000	-	250,000	235,000	15,000	-	955,000	1,755,000
2035	-	-	525,000	-	-	270,000	350,000	15,000	-	965,000	2,125,000
2036	-	-	-	-	-	265,000	1,235,000	560,000	-	140,000	2,200,000
2037	-	1,060,000	-	-	-	-	250,000	575,000	-	140,000	2,025,000
2038	-	-	595,000	-	-	-	-	-	-	1,645,000	2,240,000
2039	-	-	600,000	-	-	-	-	-	-	1,560,000	2,160,000
	<u>\$ 1,275,000</u>	<u>\$ 1,065,000</u>	<u>\$ 1,720,000</u>	<u>\$ 2,790,000</u>	<u>\$ 1,980,000</u>	<u>\$ 2,790,000</u>	<u>\$ 4,790,000</u>	<u>\$ 1,340,000</u>	<u>\$ 1,495,000</u>	<u>\$ 18,430,000</u>	<u>\$ 37,675,000</u>

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## Escrow Agreement

The principal of and interest due on a portion of the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and direct obligations of the United States of America and/or open market securities, to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, NA, Dallas, Texas (the "Escrow Agent"). The Bond Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriters the District will deposit with the Escrow Agent cash and direct obligations of the United States authorized by Chapter 1207 Texas Government Code in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

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

By the deposit of the direct obligations of the United States and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Resolutions authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Public Finance Partners LLC, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement.

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

## Sources and Uses of Funds

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

Sources of Funds:	
Par Amount of Bonds	\$18,430,000.00
Original Issue Premium	<u>311,048.10</u>
Total Sources of Funds	\$18,741,048.10
Uses of Funds:	
Escrow Deposit	\$18,095,319.28
Costs of Issuance <sup>(a)</sup>	485,483.99
Underwriters' Discount	159,974.65
Deposit to Debt Service Fund (Rounding Amount)	<u>270.18</u>
Total Uses of Funds	\$18,741,048.10

(a) Includes municipal bond insurance premium.

## THE BONDS

### General Description

The Bonds will bear interest from the date of delivery, currently anticipated to be June 18, 2019, and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on September 1, 2019 and each March 1 and September 1 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only utilizing DTC's book-entry-only system (the "Book-Entry-Only System"). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar" or "Paying Agent").

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

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

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

**Redemption**

**Optional Redemption** . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2028, in whole or from time to time in part, on September 1, 2027, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

**Mandatory Sinking Fund Redemption** . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2038 (the “Term Bond”) are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

<b>\$1,925,000 Term Bond Maturing September 1, 2038</b>	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2036	\$ 140,000
2037	140,000
2038*	1,645,000

\*Stated Maturity.

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 45 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

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

**DTC Redemption Provision**

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

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

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

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

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

**Registration.** . . The District shall cause to be kept at the Place of Payment a register (herein referred to as the "*Security Register*") in which the Paying Agent/Registrar shall provide for the registration of the Bonds and registration of transfers of the Bonds. Upon surrender for transfer of any Bond at the Place of Payment, the District will execute, and the Paying Agent/Registrar will register and deliver, in the name of the designated transferee or transferees, one or more new fully registered Bonds of the same Stated Maturity, of any authorized denominations, and of a like aggregate principal amount.

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

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

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

Neither the District nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond during a period beginning 45 days prior to a Redemption Date hereunder and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

## **Replacement Bonds**

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

## **Authority for Issuance**

The Bonds are issued pursuant to the terms and provisions of the Bond Resolution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; City of Houston Ordinance No. 97-416, and Article XVI, Section 59 of the Texas Constitution.

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

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing direct annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Resolution that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes

due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Resolution provides for the termination of the pledge of taxes when and if the City of Houston, Texas (the "City") dissolves the District and assumes all debts and liabilities of the District.

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

### **Payment Record**

The District has previously issued fifteen series of bonds consisting of: \$3,000,000 Unlimited Tax Bonds, Series 2005; \$4,730,000 Unlimited Tax Bonds, Series 2007; \$5,250,000 Unlimited Tax Bonds, Series 2007A; \$7,500,000 Unlimited Tax Bonds, Series 2008; \$4,010,000 Unlimited Tax Bonds, Series 2009; \$3,930,000 Unlimited Tax Bonds, Series 2010; \$14,885,000 Unlimited Tax and Refunding Bonds, Series 2012; \$5,370,000 Unlimited Tax Bonds, Series 2012A; \$2,845,000 Unlimited Tax Park Bonds, Series 2012B; \$6,945,000 Unlimited Tax Refunding Bonds, Series 2013; \$2,905,000 Unlimited Tax Refunding Bonds, Series 2014; \$2,980,000 Unlimited Tax Refunding Bonds, Series 2015; \$5,075,000 Unlimited Tax Refunding Bonds, Series 2016; \$1,390,000 Unlimited Tax Refunding Bonds, Series 2016A; and \$1,495,000 Unlimited Tax Park Bonds, Series 2018 (collectively, the "Previously Issued Bonds"). The District has not defaulted in the payment of the principal of or interest on the Previously Issued Bonds. See "FINANCIAL STATEMENT – Outstanding Bonds – Table 6."

### **Flow of Funds**

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

To provide for the payment of the principal (and redemption price) of, interest on, and Paying Agent fees in respect of the Bonds, the District will maintain a Debt Service Fund on its books of account. The District will credit to the Debt Service Fund: (i) all receipts of taxes (and penalty and interest thereon) levied to provide for the payment of principal of and interest on (or fees and expenses of the Paying Agent with respect to) the Bonds, (ii) all earnings from the investment of amounts credited to the Debt Service Fund, and (iii) any other funds of the District deposited to the Debt Service Fund to pay principal (or redemption price) of or interest on the Bonds.

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

### **Defeasance of Outstanding Bonds**

The Bond Resolution provides that any bond shall be deemed to be paid and shall no longer be considered to be a bond within the meaning of the Bond Resolution when payment of the principal of and interest on such bond to its stated maturity or (if notice of redemption shall have been duly given, irrevocably provided for or duly waived) to the redemption date shall have been made or shall have been provided for under the provisions of the Bond Resolution. Such payment may be provided for by deposit with the Paying Agent (or with any other bank or trust company which has agreed to hold the same for such purpose) of (i) money sufficient to make such payment, (ii) Defeasance Obligations (as defined below) certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (iii) a combination of money and Defeasance Obligations together so certified sufficient to make such payment, provided that all the expenses pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Paying Agent (and to such other bank or trust company).

For purposes of these provisions, "Defeasance Obligations" means (i) direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, (ii) 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 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, or (iii) noncallable obligations of a state or agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date 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, but in the case of each of (i), (ii), and (iii), only if such obligations may not be called for redemption prior to maturity.

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 without amounts deposited to defease the Bonds. Because the Bond Resolution does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Obligations or those for any other Defeasance Obligation will be maintained at any particular rating category.

## **Paying Agent/Registrar**

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

Provision is made in the Bond Resolution for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar, will be sent by the District or the successor paying agent/registrar to each Registered Owner by first-class mail, postage prepaid.

## **Record Date**

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

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "Commission" or the "TCEQ"), as necessary, to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT - General." The District's voters have authorized the issuance of a total of \$37,200,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, of which \$410,000 principal amount of unlimited tax bonds remains authorized but unissued. The District's voters also have authorized a total of \$24,200,000 principal amount of unlimited tax bonds for refunding purposes, of which \$19,277,288.57 principal amount of unlimited tax refunding bonds will remain authorized but unissued after the issuance of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of unlimited tax bonds payable from taxes for such purpose. The Board has approved a park plan and at an election held on May 15, 2004, voters in the District authorized the issuance of \$9,500,000 principal amount of unlimited tax bonds for park and recreational purposes, of which \$5,160,000 principal amount of unlimited tax bonds remains authorized but unissued. If the District does issue additional 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, and the issuance of such bonds must be approved by the TCEQ and the Attorney General of Texas.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) approval of a detailed fire plan by the TCEQ; (b) authorization of the detailed fire plan and bonds for such purposes by the qualified voters in the District; (c) approval of the bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered a fire plan or calling an election at this time for such purposes. Fire protection is currently provided to property in the District by Harris County ESD No. 9.

The District has the right to issue the authorized but unissued bonds without the necessity of further voter authorization. Before issuing any additional bonds for waterworks, sanitary sewer, and drainage facilities or park and recreational facilities, the District would have to obtain approval of the 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 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 contract, provided the provisions of the contract are approved by the voters of the District.

## **Lost, Stolen, Mutilated or Destroyed Bonds**

If (i) any mutilated Bond is surrendered to the Paying Agent, or the District and the Paying Agent receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is delivered to the District and the Paying Agent such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the District or the Paying Agent that such Bond has been acquired by a bona fide purchaser, the District will execute and upon its request the Paying Agent will authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same maturity and of like tenor and principal amount.

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

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

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

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

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

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

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

If the District defaults in the payment of the principal of or interest on the Bonds when due or in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Resolution, any bondholder shall, in addition to all other rights and remedies of such bondholder provided by the laws of the State, be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body and other officers of the District to make such payment or to observe and perform such covenant, obligation, or condition. No delay or omission by any bondholder to exercise any right or power accruing to such bondholder upon default will impair any such right and power, or be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the bondholders. 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 bondholders. 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, and a suit for money damages may not be brought without legislative authorization. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the bondholders 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 bondholders 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.

### **Annexation by the City of Houston**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City consent ordinance. 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, under legislation effective December 1, 2017, 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” below, for a description of the terms of the Strategic Partnership Agreement between the City and the District.

If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, 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 to make debt service payments should annexation occur.

### **Strategic Partnership Agreement**

In 2012, the District entered into a strategic partnership agreement with the City pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District was annexed into the City for limited purposes, while the balance of the District remains in the City’s extraterritorial jurisdiction. As a result of the agreement, the City imposes a one percent sales and use tax (but not its property taxes) within the area of limited purpose annexation, and remits one-half of the City’s sales and use tax receipts from within the District to the District to be used for any lawful District purpose. In addition, for the 30-year term of the agreement, the City agrees not to annex the District for general purposes, thus delaying for at least 30 years from the date of the agreement any dissolution of the District and assumption of its assets and liabilities by the City. The City and the District may amend the strategic partnership agreement at any time. Funds to be received by the City under the agreement are not pledged to the payment of the Bonds. After the 30-year term, if the District is annexed, the City will assume the District’s assets and obligations and dissolve the District within ninety (90) days. Annexation of the territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex and assume its debt, nor does the District make any representation concerning the ability of the City to pay debt service on the District’s bonds if annexation were to occur.

## **Consolidation**

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

## **Alteration of Boundaries**

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

## **No Arbitrage**

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

## **Approval of the Bonds**

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

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

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds, which are obligations of the District and are not obligations of the State; Harris County, Texas; the City; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Source of and Security for Payment". The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

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

**Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:** A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes is related to general economic conditions affecting the demand for and taxable value of residences. Demand for residential dwellings can be significantly affected by factors such as interest rates, credit availability, foreclosure levels, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers in which the District is located.

**Impact on District Tax Rates:** The value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Assessed Valuation of the District is \$451,823,439. After issuance of the Bonds, the Maximum Requirement will be \$2,687,789 (2032) and the Average Requirement will be \$2,464,303 (2019 through 2039, inclusive). Assuming (1) no increase or decrease from the 2018 Certified Taxable Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.63 and \$0.58 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS – Table 3" and "TAX DATA - Tax Adequacy for Debt Service."

## **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **2019 Legislative Session – Pending Legislation Affecting Ad Valorem Taxation**

The 86th Regular Legislative Session convened on January 8, 2019 and will conclude on May 27, 2019. The Governor of Texas has declared property tax reform as an emergency item for the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. House Bill 2 ("HB 2") and Senate Bill 2 ("SB 2") were introduced during the 86th Regular Legislative Session and, if adopted, would significantly lower the rollback rate and require taxing entities to hold mandatory rollback elections when the rollback rate is exceeded. SB 2 has passed the Senate floor and HB 2 is expected to be considered on the House floor prior to the Date of Delivery of the Bonds. The District can make no representation as to the final versions of HB 2 and SB 2 or regarding any actions the Texas Legislature may take or the effect of any such actions on the District.

## **Tax Collections and Foreclosure Remedies**

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

## **Recent Extreme Weather Events; Hurricane Harvey**

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

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

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

## Specific Flood Type Risks

**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.

## Bond Insurance Risks

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

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

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer 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 claims 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 RATINGS" and "BOND INSURANCE" herein.

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

Neither the District nor the Underwriters have made independent investigations 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 RATINGS" and "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

## Registered Owners' Remedies

In the event of default in the payment of principal or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default, and consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws

relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

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

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

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

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

### **Marketability**

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

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

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

### **Environmental Regulation**

Wastewater treatment, 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/Greenhouse Gas Issues.** Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston Bay area ("HGB area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller,

Montgomery and Liberty counties—was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 “eight-hour” ozone standards (“the 1997 Ozone Standards”). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas’s redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

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

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

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

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

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

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

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On June 29, 2015, Texas, along with Louisiana and Mississippi, filed a lawsuit seeking a nationwide stay of the CWR in the United States District Court of the Southern District of Texas. On August 25, 2015, the United States District Court for North Dakota granted a motion for a preliminary injunction that prevents implementation of the CWR in thirteen states. On February 22, 2018, after the United States Supreme Court ruled that federal district courts have proper jurisdiction over the CWR, the Southern District of Texas heard arguments on preliminary relief staying the CWR. On June 11, 2018, the United States District Court for the Southern District of Georgia granted a motion for a preliminary injunction that prevents implementation of the CWR in eleven states.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR, reinstating language in place before 2015 changes, and proposing the development of a revised definition of “waters of the United States.” This proposed rule was published in the Federal Register on July 27, 2017, the comment period ended on September 28, 2017.

On January 31, 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR by two years from the date the rule is published in the Federal Register, until 2020. In response, a coalition of states filed a lawsuit in the U.S. District Court for the Southern District

of New York alleging the EPA violated the Administrative Procedure Act by enacting this rule without the customary 30-day comment period. On June 15, 2018, the EPA and the USACE sent a proposed “Step 2” rule that would redefine “waters of the United States” to the Office of Management and Budget for interagency review.

On June 30, 2018, the EPA and the USACE issued a supplemental notice of proposed rulemaking to clarify that the agencies are proposing to permanently repeal the 2015 rule in its entirety, and reinstate language in place before 2015 changes while developing a revised definition of “waters of the United States.” The proposed rule will be published in the Federal Register and is then subject to a 30-day public comment period prior to final publication.

If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

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

### **Future Debt**

The District has the right to issue the remaining \$410,000 unissued unlimited tax bonds authorized to acquire additional Utility Facilities, the remaining \$5,160,000 principal amount of unissued unlimited tax bonds authorized to acquire and construct park and recreational facilities, the remaining \$19,277,288.57 principal amount of unissued unlimited tax refunding bonds authorized for refunding the District’s debt, and such additional bonds as may hereafter be approved by both the Board and voters of the District. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed and would be on parity with the Bonds. If additional tax-supported bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds and the Outstanding Bonds. See “THE BONDS - Issuance of Additional Debt.”

The District does not employ any formula with respect to appraised valuations and tax collections nor does it otherwise limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See “THE BONDS – Issuance of Additional Debt.”

### **Approval of the Bonds**

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

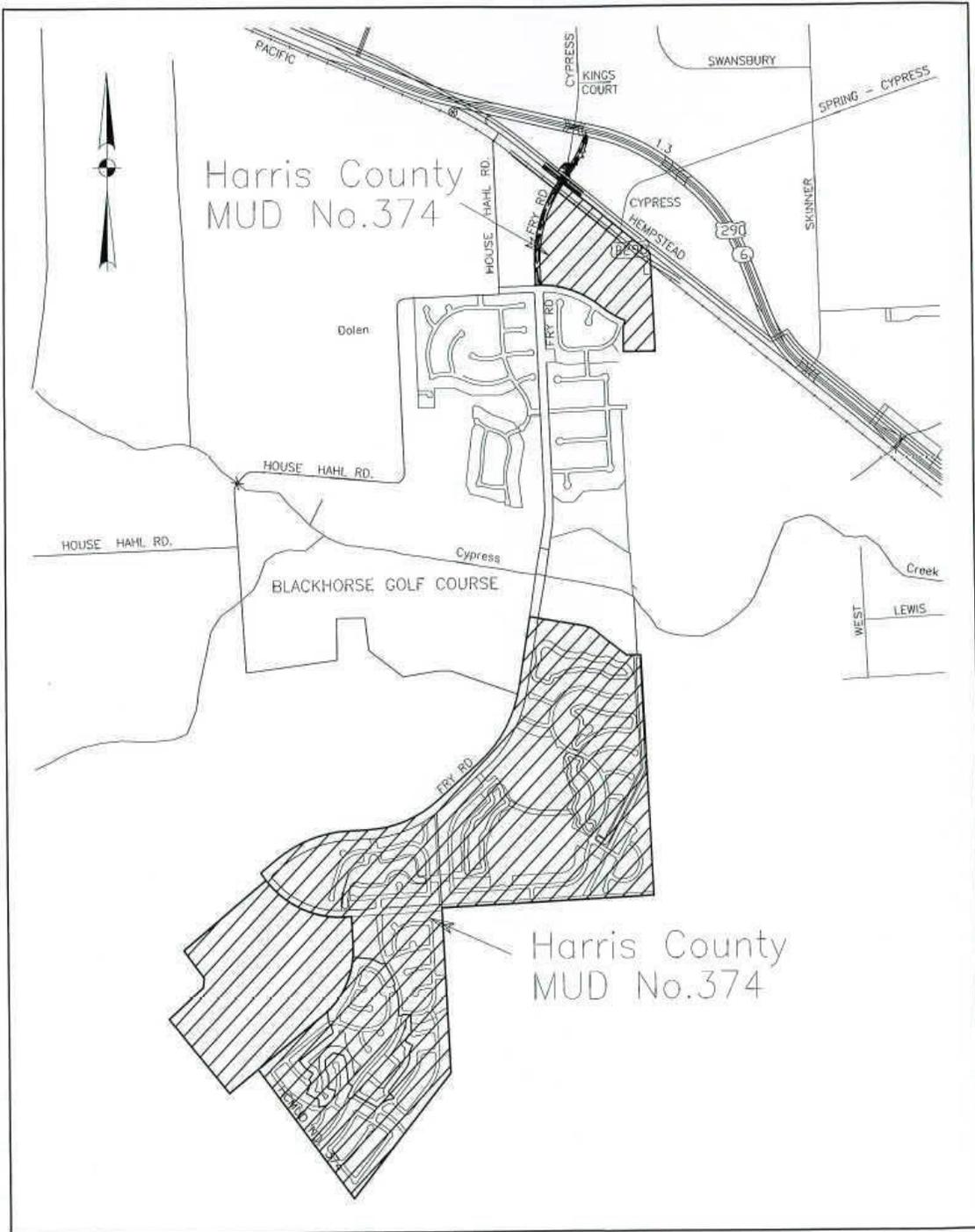
### **Forward-Looking Statements**

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

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

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

LOCATION MAP



## THE DISTRICT

### General

The District was created by order of the Texas Natural Resource Conservation Commission, now known as the TCEQ, adopted on September 19, 2001, and by a confirmation election held within the District on November 6, 2001, and operates as a municipal utility district pursuant to the provisions of Article XVI, Section 59, of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ. The District as created contained approximately 343 acres. On November 11, 2004, approximately 180 acres were annexed, on May 11, 2006 an additional approximately 130 acres were annexed, and on March 8, 2007 an additional approximately 78.5 acres were annexed, bringing the total acreage of the District to approximately 732 acres.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District, the City, and the TCEQ.

### Management of the District

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Joe Sykes	President	2020	11 Years
Thomas Mohr	Vice President	2020	7 Years
Brian Canepa	Secretary	2020	11 Years
Jennifer Naedler	Assistant Vice President	2022	2 Years
Scott Spidle	Assistant Secretary	2022	1 Year

### Consultants

*Tax Assessor/Collector:* The Harris County Appraisal District appraises land and improvements in the District. The Board of Directors of the District appoints the Tax Assessor/Collector. Tax Tech, Inc. ("Tax Tech") currently serves the District in this capacity under contract. Tax Tech serves approximately 80 other special districts as Tax Assessor/Collector.

*Bookkeeper:* McLennan & Associates, L.P. (the "Bookkeeper"), acts as bookkeeper for the District. The Bookkeeper performs similar services for approximately 118 other special districts.

*Operator:* The District's water and sewer system is operated by Inframark Water & Infrastructure Services (the "Operator"). The Operator serves in this capacity to 136 other special districts.

*Engineer:* The District's consulting engineer is BGE, Inc. (the "Engineer"). Such firm serves as consulting engineer to over 100 other special districts in the Houston metropolitan area.

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

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

### Location

The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. The District's northern boundary is the Union Pacific railroad track, western boundary is Fry Road and Harris County Municipal Utility District No. 371, and eastern boundary is Harris County Municipal Utility District No. 500, and southern boundary is Harris County Municipal Utility District No. 433. Access to the District is provided by U.S. Hwy 290 to Fry Road. See "LOCATION MAP."

## Status of Development

Residential development within the District includes 979 developed single-family lots, all of which contain completed homes, on approximately 478.81 acres. Additional development within the District includes two apartment complexes containing 620 apartment units on approximately 40.20 acres. Additionally, the Utility Facilities serving approximately 25.6 acres of retail/commercial acres have been constructed, of which approximately 17.86 acres contain above ground commercial/retail improvements, including two retail and restaurant strip centers, a storage facility, a daycare center and a gas station. In addition, the District contains eight lakes, two recreation centers on approximately 3.38 acres, and District facility sites on approximately 4.50 acres. The District also contains approximately 130 acres of Cypress-Fairbanks ISD school facilities, which are exempt from ad valorem taxation. Approximately 9.74 acres of apartments are currently under design.

The chart below reflects the status of development within the District:

	Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
<b>A. Single Family Developed with Utility Facilities</b>					
Cypress Creek Lakes, Section 1	115.37	116	116	0	0
Cypress Creek Lakes, Section 2	69.44	126	126	0	0
Cypress Creek Lakes, Section 3 North	35.70	69	69	0	0
Cypress Creek Lakes, Section 3 South	25.80	79	79	0	0
Cypress Creek Lakes, Section 4	54.80	107	107	0	0
Cypress Creek Lakes, Section 5	41.50	104	104	0	0
Cypress Creek Lakes, Section 6	53.13	84	84	0	0
Cypress Creek Lakes, Section 7	24.93	96	96	0	0
Cypress Creek Lakes, Section 8	27.57	102	102	0	0
Cypress Creek Lakes, Section 9	<u>30.57</u>	<u>96</u>	<u>96</u>	<u>0</u>	<u>0</u>
<b>Total Single Family Developed with Utilities</b>	<b>478.81</b>	<b>979</b>	<b>979</b>	<b>0</b>	<b>0</b>
<b>B. Other Improvements Developed with Utility Facilities</b>					
Multi-Family (2 Apartment Complexes/620 Units)	40.20				
Retail/Commercial <sup>(a)</sup>	25.60				
Future Apartments	9.74				
Recreation Center	3.38				
District Facility Sites	4.50				
Cypress-Fairbanks ISD	<u>130.00</u>				
<b>Total Other Improvements</b>	<b>213.42</b>				
<b>C. Total Developed Acres</b>	<b>692.23</b>				
<b>D. Remaining Developable Acreage</b>	<b>0.00</b>				
<b>E. Undevelopable Acreage</b>	<b><u>40.17</u></b>				
<b>Total</b>	<b>732.40</b>				

(a) The Utility Facilities serving approximately 25.6 acres of retail/commercial acres have been constructed, of which approximately 17.86 acres contain above ground commercial/retail improvements.

## Future Development

The District contains approximately 692.23 developable acres, all of which have been developed with Utility Facilities. The Developer has been fully reimbursed for the construction of water, sanitary sewer and drainage facilities, as well as for the construction of parks and recreational facilities, that serve the District.

## THE SYSTEM

### Regulation

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

Operation of the District’s waterworks and wastewater facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ.

### Water Supply and Distribution

The District currently obtains its water supply through two contractual agreements. The contractual agreements are as follows: Harris County Municipal Utility District No. 371 (“HCMUD 371”), the District and Mischer Investments, LP (the “371 Agreement”) and a contractual agreement between the District and Harris County Municipal Utility District No. 433 (“HCMUD 433”) (the “433 Agreement”). Under the 371 Agreement, HCMUD 371 supplies water to the District with both ground water from two wells, Well No. 1, capacity 1,000 gallons per minute (“gpm”) and Well No. 2, capacity 600 gpm, and surface water as delivered by the West Harris County Regional Water Authority (“WHCRWA”). HCMUD 371 currently owns and operates these existing water supply facilities for the District and HCMUD 371. According to the engineer, the existing HCMUD 371 water supply facilities meet or exceed the minimum design criteria set by TCEQ, and will provide capacity for 600 equivalent single family connections (“ESFC”). Under the 433 Agreement, the district financed a portion of the water plant and well located in HCMUD 433. Harris County MUD 433 supplies water to the District from two water plants that consist of water supply from one ground water well, Well No. 1, capacity 1,000 gpm and surface water as delivered by the WHCRWA. The District has ownership rights to 1,377 ESFCs from the water plant facilities at full buildout. The capacity provided by the 371 Agreement and the 433 Agreement provide capacity to serve 1,977 ESFCs. According to the District’s Engineer, the District has acquired sufficient capacity to serve the District at full build-out.

### Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from the City. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP.

The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. 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 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) will comply with its GRP.

**Wastewater Collection and Treatment**

The District’s Wastewater Treatment Facility is a 650,000 gallons per day capacity treatment plant that can serve 2,600 ESFCs. According to the Engineer, the wastewater treatment plant, based on current build-out projections, meets the ultimate service demand.

**100-Year Flood Plain**

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

Approximately 38 acres of the District are located within the boundary of the 100-year Flood Plain for Cypress Creek as defined by FEMA Map Number 48201C0405L and 48201C0415L, Harris County Unincorporated Data, dated June 18, 2007. The 38 acres located in the 100-year Flood Plain include a mitigation lake area and an outfall channel. No lots are developed nor are any expected to be developed on the 38 acres of the District that are located within the boundary of the 100-year Flood Plain.

**Water and Wastewater Operations**

***Rate and Fee Schedule - Table 1***

The Board of Directors of the District establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District’s water and sewer service which were effective as of May 14, 2015.

Water (monthly billings)

*Residential (Single-Family):*

First 5,000 gallons of water used .....	\$10.00 (minimum)
5,000 – 10,000 gallons of water used .....	\$1.50 per 1,000 gallons
10,000 – 20,000 gallons of water used .....	\$1.75 per 1,000 gallons
20,000 – 50,000 gallons of water used .....	\$2.25 per 1,000 gallons
50,000 – 75,000 gallons of water used .....	\$3.00 per 1,000 gallons
In excess of 75,000 gallons of water used .....	\$3.60 per 1,000 gallons

*Non-Single Family User:*

First 1,000 gallons of water used .....	\$20.00 (minimum)
1,000 – 30,000 gallons of water used .....	\$1.00 per 1,000 gallons
In excess of 30,000 gallons of water used .....	\$1.75 per 1,000 gallons

Single Meter: Minimum rate \$20.00 times the number of apartment units, with excess usage charged.

*Irrigation Systems:*

First 1,000 gallons of water used .....	\$15.00 (minimum)
In excess of 1,000 gallons of water used .....	\$1.75 per 1,000 gallons
West Harris County Regional Water Authority pumpage fee .....	110% of pumpage fee charged

Sewer (monthly billings)

*Residential:*

First 5,000 gallons per unit .....	\$10.00 (minimum)
In excess of 5,000 gallons per unit .....	\$2.00 per 1,000 gallons

*Non-Single Family User:*

Rate per 1,000 gallons per unit .....	\$1.75 per 1,000 gallons
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## Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District as derived from the District's audited financial statement for the years ending August 31, 2014 through August 31, 2018 and an unaudited summary for the year ended March 31, 2019. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. Also see "Appendix A – Audited Financial Statements."

	Fiscal Year Ended					
	4/30/19 <sup>(a)</sup>	8/31/18 <sup>(b)</sup>	8/31/17 <sup>(b)</sup>	8/31/16 <sup>(b)</sup>	8/31/15 <sup>(b)</sup>	8/31/14 <sup>(b)</sup>
<b>REVENUES</b>						
Water Service	\$ 254,676	\$ 428,571	\$ 442,890	\$ 410,537	\$ 375,977	\$ 425,105
Sewer Service	235,319	402,163	397,040	378,612	354,260	388,780
Property Taxes	1,126,109	1,374,439	1,586,440	1,389,873	1,068,951	722,263
Penalties and Interest	12,436	15,131	23,113	19,904	21,426	25,017
City of Houston Sales Tax Rebates	26,615	37,510	36,970	33,175	24,420	27,364
Tap Connection and Inspection	7,400	10,310	9,200	42,080	151,761	5,210
Surface Water Fees	487,364	823,446	768,859	642,206	513,968	457,139
Regional Water Authority Fees	-	-	-	-	-	56,341
Chloramin Conversion Refund	-	244,443	-	-	-	-
Miscellaneous	35,385	22,486	13,557	17,114	15,277	11,980
Investment Revenues	79,623	71,677	25,634	7,627	3,073	2,066
	<b>\$ 2,264,927</b>	<b>\$ 3,430,176</b>	<b>\$ 3,303,703</b>	<b>\$ 2,941,128</b>	<b>\$ 2,529,113</b>	<b>\$ 2,121,265</b>
<b>EXPENDITURES</b>						
Bulk Water & Wastewater Purchases	\$ 526,162	\$ 822,605	\$ 789,708	\$ 619,868	\$ 562,433	\$ 581,293
Legal Fees	62,767	105,630	99,922	89,334	100,661	85,579
Financial Advisory Fees	1,580	1,500	1,500	1,525	1,500	1,500
Audit Fees	12,000	11,500	11,500	11,500	11,500	11,500
Engineering Fees	38,234	66,030	51,578	45,960	45,056	51,998
Bookkeeping Fees	15,700	21,805	24,394	22,500	22,969	22,843
Operator	52,137	78,126	76,366	71,051	54,939	59,567
Security Services	77,813	103,071	100,723	100,722	98,822	74,607
Contract Manager	-	-	-	-	20,000	22,500
Tap Connection and Inspection	6,997	9,466	9,918	22,372	62,658	14,671
Sludge Removal	45,018	93,050	62,306	59,091	34,880	65,977
Repairs and Maintenance	492,342	807,700	785,872	958,156	763,041	665,558
Utilities	91,753	151,841	174,233	172,280	156,458	136,363
Directors Fees & related Payroll Taxes	8,993	12,150	11,400	11,550	12,300	12,000
Printing & Office Supplies	6,293	8,283	9,371	6,502	7,321	5,308
Insurance	24,173	22,373	21,654	21,566	25,656	20,307
Other	37,734	65,983	63,261	55,214	59,241	49,025
Capital Outlay	113,153	105,107	27,425	132,916	141,192	2,120
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,612,849</b>	<b>\$ 2,486,220</b>	<b>\$ 2,321,131</b>	<b>\$ 2,402,107</b>	<b>\$ 2,180,627</b>	<b>\$ 1,882,716</b>
<b>NET REVENUE / (DEFICIT)</b>	<b>\$ 652,078</b>	<b>\$ 943,956</b>	<b>\$ 982,572</b>	<b>\$ 539,021</b>	<b>\$ 348,486</b>	<b>\$ 238,549</b>
<b>Beginning Fund Balance</b>	<b>\$ 5,256,227</b>	<b>\$ 4,312,271</b>	<b>\$ 2,872,410</b>	<b>\$ 2,333,389</b>	<b>\$ 1,503,638</b>	<b>\$ 1,241,989</b>
Plus / (Less): Fund Transfers	-	-	457,289	-	481,265	23,100
<b>Ending Fund Balance</b>	<b>\$ 5,908,305</b>	<b>\$ 5,256,227</b>	<b>\$ 4,312,271</b>	<b>\$ 2,872,410</b>	<b>\$ 2,333,389</b>	<b>\$ 1,503,638</b>

(a) Unaudited as of April 30, 2019. Partial year. Represents eight months of the District's current fiscal year.

(b) Audited.

**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**  
**Harris County Municipal Utility District No. 374**  
**\$18,430,000**

**Unlimited Tax Refunding Bonds, Series 2019**

**Dated Date: June 1, 2019**

**First Interest Payment Due: September 1, 2019**

Year Ending 31-Dec	Current Debt Service Requirement	Less Refunded Debt Service*	The Bonds				Total Principal and Interest	Total Debt Service Requirements
			Principal (Due 9/01)	Interest (Due 3/01)	Interest (Due 9/01)	Total		
2019	\$ 2,407,051	\$ 325,031	\$ 210,000	\$ -	\$ 115,078	\$ 115,078	\$ 325,078	\$ 2,407,098
2020	2,420,951	650,063	45,000	281,653	281,653	563,306	608,306	2,379,195
2021	2,472,489	1,010,063	405,000	280,978	280,978	561,956	966,956	2,429,383
2022	2,477,461	1,027,463	435,000	274,903	274,903	549,806	984,806	2,434,805
2023	2,490,199	1,358,813	780,000	268,378	268,378	536,756	1,316,756	2,448,143
2024	2,543,664	1,384,788	830,000	256,678	256,678	513,356	1,343,356	2,502,233
2025	2,578,614	1,675,213	1,145,000	244,228	244,228	488,456	1,633,456	2,536,858
2026	2,556,020	1,671,163	1,175,000	227,053	227,053	454,106	1,629,106	2,513,964
2027	2,595,258	1,693,900	1,235,000	209,428	209,428	418,856	1,653,856	2,555,214
2028	2,577,808	1,696,100	1,280,000	184,728	184,728	369,456	1,649,456	2,531,164
2029	2,638,858	1,716,650	1,335,000	165,528	165,528	331,056	1,666,056	2,588,264
2030	2,653,345	1,747,263	1,405,000	145,503	145,503	291,006	1,696,006	2,602,089
2031	2,697,695	1,189,125	895,000	124,428	124,428	248,856	1,143,856	2,652,426
2032	2,737,095	1,256,313	985,000	111,003	111,003	222,006	1,207,006	2,687,789
2033	2,582,008	1,104,750	865,000	96,228	96,228	192,456	1,057,456	2,534,714
2034	2,202,201	1,170,350	955,000	83,253	83,253	166,506	1,121,506	2,153,358
2035	2,517,676	1,151,950	965,000	68,928	68,928	137,856	1,102,856	2,468,583
2036	2,520,564	292,750	140,000	54,453	54,453	108,906	248,906	2,476,720
2037	2,281,130	291,110	140,000	52,266	52,266	104,531	244,531	2,234,551
2038	2,432,433	1,794,263	1,645,000	50,078	50,078	100,156	1,745,156	2,383,326
2039	2,279,750	1,658,000	1,560,000	24,375	24,375	48,750	1,608,750	2,230,500
	<b><u>\$ 52,662,268</u></b>	<b><u>\$ 25,865,116</u></b>	<b><u>\$ 18,430,000</u></b>	<b><u>\$ 3,204,072</u></b>	<b><u>\$3,319,150</u></b>	<b><u>\$6,523,222</u></b>	<b><u>\$24,953,222</u></b>	<b><u>\$ 51,750,373</u></b>

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

**Assessed Value - Table 4**

2018 Certified Assessed Valuation		451,823,439 <sup>(a)</sup>
Gross Debt Outstanding (after the issuance of the Bonds)	\$	37,675,000 <sup>(b)</sup>
Ratio of Gross Debt to 2018 Certified Assessed Valuation		8.34%
2018 Tax Rate per \$100 Assessed Valuation		
Debt Service	\$	0.5655
Maintenance		0.2545
Total 2018 Tax Rate	\$	0.8200 <sup>(c)</sup>
Debt Service Fund Balance (as of May 9, 2019)	\$	2,829,652 <sup>(d)</sup>

Area of District: 732.4 acres  
Estimated Population as of April 1, 2019 – 4,937<sup>(e)</sup>

- (a) Assessed valuation of the District as January 1, 2018, as certified by the Harris County Appraisal District (“HCAD”). See "TAXING PROCEDURES."
- (b) Includes the Bonds, excludes the Refunded Bonds.
- (c) The District levied a 2018 tax rate of \$0.82 per \$100 assessed valuation.
- (d) Unaudited as of May 9, 2019. Neither Texas Law nor the Bond Resolution requires the District to maintain any particular sum in the debt service fund.
- (e) Based on 3.5 residents per active occupied single-family connection and 2.5 residents per occupied apartment and townhome unit. As of April 15, 2019 the apartments were 97.9% occupied.

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

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
11/6/2001	Water, Sewer and Drainage	\$ 37,200,000.00	\$ 36,790,000.00	\$ 410,000.00
11/6/2001	Refunding	24,200,000.00	4,922,711.43 <sup>(a)</sup>	19,277,288.57
5/15/2004	Parks and Recreational Facilities	9,500,000.00	4,340,000.00	5,160,000.00

- (a) The voters of the District authorized the issuance of refunding bonds in a total aggregate principal amount of \$24,200,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriters’ discount is also counted against the District's refunding authorization. The issuance of the Bonds uses \$726,073.45 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$4,922,711.43 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$19,277,288.57 of voted authorization of refunding bonds remains unissued.

**Outstanding Bonds - Table 6**

<b>Dated Date</b>	<b>Purpose</b>	<b>Original Series</b>	<b>Original Principal Amount</b>	<b>Principal Amount Outstanding after the Issuance of the Bonds<sup>(a)</sup></b>
<b>A. New Money Bonds</b>				
10/1/2005	Water, Sanitary Sewer & Drainage	2005	\$ 3,000,000	\$ -
3/1/2007	Water, Sanitary Sewer & Drainage	2007	4,730,000	-
12/1/2007	Water, Sanitary Sewer & Drainage	2007A	5,250,000	-
12/1/2008	Water, Sanitary Sewer & Drainage	2008	7,500,000	-
10/1/2009	Water, Sanitary Sewer & Drainage	2009	4,010,000	-
8/1/2010	Water, Sanitary Sewer & Drainage	2010	3,930,000	-
2/1/2012	Water, Sanitary Sewer & Drainage	2012	3,000,000	380,000
12/1/2012	Water, Sanitary Sewer & Drainage	2012A	5,370,000	1,065,000
12/1/2012	Parks and Recreational Facilities	2012B	2,845,000	1,720,000
9/1/2018	Parks and Recreational Facilities	2018	1,495,000	1,495,000
	<b>Subtotal</b>		<b><u>\$ 41,130,000</u></b>	<b><u>\$ 4,660,000</u></b>
<b>B. Refunding Bonds</b>				
2/1/2012	Refunding	2012	\$ 11,885,000	\$ 895,000
3/1/2013	Refunding	2013	6,945,000	2,790,000
6/1/2014	Refunding	2014	2,905,000	1,980,000
4/1/2015	Refunding	2015	2,980,000	2,790,000
8/1/2016	Refunding	2016	5,075,000	4,790,000
8/1/2016	Refunding	2016A	1,390,000	1,340,000
6/1/2019	Refunding	2019	18,430,000 <sup>(b)</sup>	18,430,000 <sup>(b)</sup>
	<b>Subtotal</b>		<b><u>\$ 49,610,000</u></b>	<b><u>\$ 33,015,000</u></b>
	<b>Total</b>		<b><u>\$ 90,740,000</u></b>	<b><u>\$ 37,675,000</u></b>

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

(b) The Bonds.

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

General Fund	\$ 5,614,400
Debt Service Fund	2,829,652 <sup>(b)</sup>
Capital Projects Fund	453,865

(a) Unaudited as of May 9, 2019.

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

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

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States; (5)

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

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

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

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

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

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

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

**Current Investments - Table 8**

The District, as of May 9, 2019, is invested in TexPool. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

<b>Investment Value as of May 9, 2019</b>	
TexPool	\$ 8,850,739
<b>Total</b>	<b>\$ 8,850,739</b>

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## Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by State law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Harris County	\$ 2,050,758,022	4/30/2019	0.100%	\$ 2,050,758
Harris County Department of Education	6,320,000	4/30/2019	0.100%	6,320
Harris County Flood Control District	83,075,000	4/30/2019	0.100%	83,075
Harris County Toll Road <sup>(a)</sup>	-	4/30/2019	0.000%	-
Harris County ESD No. 9 <sup>(b)</sup>	-	4/30/2019	0.000%	-
Harris County Hospital District	57,300,000	4/30/2019	0.100%	57,300
Port of Houston Authority	593,754,397	4/30/2019	0.100%	593,754
Lone Star College System	609,845,000	4/30/2019	0.240%	1,463,628
Cypress Fairbanks Independent School District	2,586,595,000	4/30/2019	0.890%	23,020,696
<b>TOTAL ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 27,275,531</b>
The District	\$ 37,675,000 <sup>(c)</sup>	6/1/2019	100.000%	\$ 37,675,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 64,950,531</b>
<b>Ratio of Estimated and Overlapping Debt to 2018 Certified Assessed Valuation</b>				<b>14.38%</b>

- (a) No outstanding debt due to self-supporting toll road system.  
(b) Taxing jurisdiction with no outstanding debt.  
(c) Includes the Bonds; excludes the Refunded Bonds.

## Overlapping Taxes for 2018

Overlapping Entity	2018 Tax Rate Per \$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Harris County	Harris County
Harris County	\$0.418580	\$ 1,505
Harris County Department of Education	0.005190	19
Harris County Flood Control District	0.028770	103
Harris County ESD No. 9	0.052710	189
Harris County Hospital District	0.171080	615
Port of Houston Authority	0.011550	42
Lone Star College System	0.107800	388
Cypress Fairbanks Independent School District	1.440000	5,176
The District	<u>0.820000</u>	<u>2,948</u>
<b>Total</b>	<b>\$3.055680</b>	<b>\$ 10,984</b>

(a) Based upon the 2018 average single family home value of \$359,471, as provided by the District's tax assessor/collector.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type of Property	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Land Value	\$ 94,228,320	20.86%	\$ 90,767,205	19.84%	\$ 87,666,588	20.22%
Improvements	456,452,627	101.05%	444,892,875	97.25%	441,542,086	101.82%
Personal Property	4,452,787	0.99%	23,016,860	5.03%	5,198,826	1.20%
Less: Exemptions	(103,413,220)	-22.89%	(101,220,335)	-22.13%	(100,756,842)	-23.23%
<b>Total</b>	<b>\$ 451,720,514</b>	<b>100.00%</b>	<b>\$ 457,456,605</b>	<b>100.00%</b>	<b>\$ 433,650,658</b>	<b>100.00%</b>

**Tax Collections - Table 10**

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

Tax Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2008	180,394,449	1.0000	1,803,944	1,795,233	99.52%	1,808,628	100.26%	8/31/2009 <sup>(b)</sup>
2009	225,690,829	0.9500	2,144,063	2,134,152	99.54%	2,150,476	100.30%	8/31/2010 <sup>(b)</sup>
2010	242,962,687	0.9500	2,308,146	2,303,827	99.81%	2,308,316	100.01%	8/31/2011 <sup>(b)</sup>
2011	262,584,695	0.9500	2,494,555	2,494,223	99.99%	2,504,233	100.39%	8/31/2012 <sup>(b)</sup>
2012	284,536,190	0.9500	2,703,094	2,702,904	99.99%	2,705,534	100.09%	8/31/2013 <sup>(b)</sup>
2013	328,502,852	0.9500	3,120,777	3,117,641	99.90%	3,118,719	99.93%	8/31/2014 <sup>(b)</sup>
2014	372,878,599	0.9300	3,467,770	3,466,524	99.96%	3,472,246	100.13%	8/31/2015 <sup>(b)</sup>
2015	406,748,883	0.9200	3,742,090	3,734,606	99.80%	3,772,632	100.82%	8/31/2016 <sup>(b)</sup>
2016	436,979,657	0.9200	4,020,213	3,999,710	99.49%	4,007,751	99.69%	8/31/2017 <sup>(b)</sup>
2017	458,679,537	0.8500	3,898,776	3,892,537	99.84%	3,906,705	100.20%	8/31/2018 <sup>(b)</sup>
2018	451,823,439	0.8200	3,704,952	3,648,248	98.47%	3,648,248	98.47%	8/31/2019 <sup>(c)</sup>

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

(b) Audited.

(c) Unaudited. Reflects collections through April 30, 2019. Taxes were due with no penalty by January 31, 2019.

**District Tax Rates - Table 11**

	Tax Rate per \$100 Assessed Valuation						
	2018	2017	2016	2015	2014	2013	2012
Debt Service	\$ 0.5655	\$ 0.5485	\$ 0.5540	\$ 0.5805	\$ 0.6435	\$ 0.7283	\$ 0.6929
Maintenance and Operations	0.2545	0.3015	0.3660	0.3395	0.2865	0.2217	0.2571
<b>Total</b>	<b>\$ 0.8200</b>	<b>\$ 0.8500</b>	<b>\$ 0.9200</b>	<b>\$ 0.9200</b>	<b>\$ 0.9300</b>	<b>\$ 0.9500</b>	<b>\$ 0.9500</b>

**Tax Rate Limitation**

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

**Maintenance Tax**

The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District's voters. An election for

such a tax was held on November 6, 2001, at which time a maintenance tax not to exceed \$1.50 per \$100 assessed valuation was approved by the District's voters. The District levied a 2018 maintenance tax of \$0.2545 at its October 2018 Board of Directors meeting.

**Additional Penalties**

The District has contracted with a tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

**Principal Taxpayers - Table 12**

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2018, 2017 and 2016 tax rolls of the District, which reflect the appraised value of taxable property owed as of January 1, of each year shown.

Name	Type of Property	2018	2017	2016
Mound TX Partners LLC	Apartments	\$ 40,908,952	\$ 35,438,500	\$ 29,126,739
Fund Cypress I LLC	Apartments	33,879,708	32,600,000	31,250,000
Shop at Cypress Creek Lakes LLC	Commercial/Retail	7,321,992	4,712,445	4,394,290
Community Self Storage VI LP	Commercial/Retail	5,984,106	4,995,242	4,256,850
Euni Eli Investment LLC	Land and Improvements	5,440,991	2,034,293	2,095,794
Texas Petroleum Group LLC	Personal Property	2,297,059	2,293,658	2,178,584
Mahalakshmi Properties LLC	Land and Improvements	2,256,614	2,236,589	(a)
Sherman Trust	Land and Improvements	1,936,159	1,935,309	1,804,065
Chick-Fil-a Inc.	Commercial/Retail	1,635,240	1,635,240	1,103,787
Prause Education	Land and Improvements	1,606,421	1,594,095	1,615,876
Fund Cypress II LLC	Land and Improvements	(a)	(a)	1,382,759
<b>Total</b>		<b><u>\$ 103,267,242</u></b>	<b><u>\$ 89,475,371</u></b>	<b><u>\$ 79,208,744</u></b>
<b>Percent of Certified Assessed Valuation</b>		<b>22.86%</b>	<b>19.51%</b>	<b>18.13%</b>

(a) Not a principal taxpayer for respective year.

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuations from the 2018 certified assessed valuation, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - *Impact on District Tax Rates.*"

Average Requirement on the Bonds and the Remaining Outstanding Bonds (2019 through 2039).....	\$2,464,303
\$0.58 Tax Rate on 2018 Certified Assessed Valuation of \$451,823,439 @ 95% collections produces.....	\$2,489,547
Maximum Requirement on the Bonds and the Remaining Outstanding Bonds (2032).....	\$2,687,789
\$0.63 Tax Rate on 2018 Certified Assessed Valuation of \$451,823,439 @ 95% collections produces.....	\$2,704,163

**Debt Service Fund Management Index**

Debt Service Requirements for year ending 12/31/19.....	\$2,407,098 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of 9/13/18.....	\$ 1,001,771 <sup>(b)</sup>
2018 Tax Levy @ 95% collections produces.....	<u>\$ 2,427,309 <sup>(c)</sup></u>
Total Available for Debt Service.....	<u>\$3,429,080</u>
Projected Debt Service Fund Balance 9/2/19.....	\$1,021,982

(Footnotes appear on the following page)

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- (a) Interest payments on the Bonds begin September 1, 2019.
  - (b) Unaudited debt service fund balance of as of September 13, 2018; does not include any 2018 tax collections and represents debt service fund balance after all 2018 debt service requirements have been paid.
  - (c) The District levied a 2018 debt service tax rate of \$0.5655.

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

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

### **Property Tax Code and County Wide Appraisal District**

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

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. Partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran is property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty. Additionally, a disabled veteran who receives 100% disability compensation due to a service- connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of their residence homestead, effective for the tax years beginning on or after January 1, 2009. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old of \$35,000 of appraised value. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

**Residential Homestead 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 before June 1. The District has not adopted a general homestead exemption.

**Freeport Goods and Goods-in-Transit Exemptions:** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly

owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

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

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

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

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

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

### **District and Taxpayer Remedies**

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District,

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

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

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

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

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" and "- Overlapping Taxes for 2018." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (in the case of a residential homestead or agricultural property, a taxpayer may redeem such property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records, otherwise six (6) months) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – General" and "- Tax Collections and Foreclosure Remedies."

### **Reappraisal of Property after Disaster**

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

### **Delinquent Tax Payments for Disaster Areas**

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

## LEGAL MATTERS

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect, and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

### **No-Litigation Certificate**

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

### **No Material Adverse Change**

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

## VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds, and compliance with City of Houston Ordinance 97-416.

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

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

## TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, (i) interest on the Bonds is excludable from gross income for federal income tax purposes, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986 (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service. The District has covenanted in the Bond Resolution that they will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor, and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

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

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law and based upon the assumptions hereinafter stated (a) The difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on a Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

## Not Qualified Tax-Exempt Obligations for Financial Institutions

The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.

### CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### Annual Reports

The District will provide certain updated financial information and operating data to the MSRB via EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings "SELECTED FINANCIAL INFORMATION," "DEBT SERVICE SCHEDULE-TABLE 3," "FINANCIAL STATEMENT-Outstanding Bonds - Table 6," "TAX DATA-Classification Of Assessed Valuation-Table 9," "Tax Collections-Table 10," "District Tax Rates-Table 11," and "APPENDIX A" (the Audit). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2018. The District will provide the updated information to the MSRB via EMMA.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB via EMMA 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 the Bond Resolution, 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 August 31. Accordingly, it must provide updated information by February 28 in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB via EMMA of the change.

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

### Event Notices

The District shall notify the MSRB via EMMA, in a timely manner not in excess of 10 business days, of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;

- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

For these purposes, (a) any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB and will be available to the public free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

#### **Limitations and Amendments**

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

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

## Compliance with Prior Undertakings

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

On March 29, 2013, Standard & Poor's Ratings Services ("S&P") lowered its long-term rating and underlying rating (SPUR) from BBB to BBB- on certain bonds issued by the District. On October 24, 2013, S&P raised its long-term rating and underlying rating (SPUR) from BBB- to BBB on certain bonds issued by the District. On June 23, 2016, the District filed notices of such rating changes with the MSRB through the EMMA system. The District has implemented procedures designed to ensure the timely filing of future event notices.

## FINANCIAL ADVISOR

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

## OFFICIAL STATEMENT

### Preparation

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

"DEVELOPER" – Mischer Investments LP ("Developer"); "THE DISTRICT" – BGE, Inc. ("Engineer"), Cypress Fairbanks Independent School District, the Developer, various area commercial and retail establishments and residential developers; "BOOK-ENTRY-ONLY-SYSTEM" – Depository Trust Company; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT- Unlimited Tax Bonds Authorized but Unissued" - Records of the District ("Records"); "FINANCIAL STATEMENT" - Harris County Appraisal District; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water And Wastewater Operations" - Audits, Harris County Appraisal District, Records and Tax Assessor/Collector; "DEBT SERVICE SCHEDULE – TABLE 3" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" - Allen Boone Humphries Robinson LLP

### Consultants

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

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

*Tax Assessor/Collector:* The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Harris County Appraisal District in reliance upon its authority in the field of appraising and tax assessing. The information contained in this Official Statement relating to tax collection rates and principal taxpayers has been provided by Tax Tech, Inc., in reliance upon the authority of said firm in the field of tax assessing and collecting.

*Auditor:* The District's 2018 financial statements were audited by McGrath & Co., PLLC, and excerpts of the District's Audited Financial Statements as of August 31, 2018, have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

### Official Statement "Deemed Final"

For purposes of compliance with Rule 15c(2)-12 of the Securities Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding 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 that term is defined in Rule 15c(2)-12.

## Annual Audits

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 374, as of the date shown on the first page hereof.

/s/ Joe Sykes

President, Board of Directors

Harris County Municipal Utility District No. 374

/s/ Brian Canepa

Secretary, Board of Directors

Harris County Municipal Utility District No. 374

## PHOTOGRAPHS

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









**APPENDIX A**  
**Audited Financial Statements**

The information contained in this appendix has been excerpted from the final audited financial statement of Harris County Municipal Utility District No 374 for the fiscal year ended August 31, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 374**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**August 31, 2018**

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# McGRATH & CO., PLLC

*Certified Public Accountants*  
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Houston, Texas 77063

## Independent Auditors' Report

Board of Directors  
Harris County Municipal Utility District No. 374  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 374, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

***Board of Directors  
Harris County Municipal Utility District No. 374  
Harris County, Texas***

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 374, as of August 31, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

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

Houston, Texas  
December 13, 2018

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

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***Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018***

**Using this Annual Report**

Within this section of the financial report of Harris County Municipal Utility District No. 374 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

***Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018***

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

**Fund Financial Statements**

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

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

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

The District's net position at August 31, 2018, was negative \$6,412,140. This amount is negative because the District incurs debt to construct drainage facilities along public streets which it conveys to Harris County for maintenance. A comparative summary of the District's overall financial position, as of August 31, 2018 and 2017, is as follows:

	2018	2017
Current and other assets	\$ 7,746,712	\$ 6,591,518
Capital assets	21,151,830	21,332,528
Total assets	<u>28,898,542</u>	<u>27,924,046</u>
 Total deferred outflows of resources	 <u>2,192,764</u>	 <u>2,372,235</u>
 Current liabilities	 1,755,012	 1,432,357
Long-term liabilities	35,748,434	36,862,037
Total liabilities	<u>37,503,446</u>	<u>38,294,394</u>
 Net position		
Net investment in capital assets	(8,338,309)	(8,818,762)
Restricted	1,039,124	813,007
Unrestricted	887,045	7,642
Total net position	<u>\$ (6,412,140)</u>	<u>\$ (7,998,113)</u>

***Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018***

The total net position of the District increased during the current fiscal year by \$1,585,973. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Property taxes, penalties and interest	\$ 3,899,533	\$ 4,018,581
Water and sewer service	830,734	839,930
Other	<u>1,248,908</u>	<u>872,038</u>
Total revenues	<u>5,979,175</u>	<u>5,730,549</u>
Expenses		
Current service operations	2,486,015	2,497,772
Debt interest and fees	1,415,382	1,440,105
Depreciation and amortization	<u>491,805</u>	<u>491,805</u>
Total expenses	<u>4,393,202</u>	<u>4,429,682</u>
Change in net position	1,585,973	1,300,867
Net position, beginning of year	<u>(7,998,113)</u>	<u>(9,298,980)</u>
Net position, end of year	<u>\$ (6,412,140)</u>	<u>\$ (7,998,113)</u>

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

The District's combined fund balances, as of August 31, 2018, were \$7,119,995, which consists of \$5,256,227 in the General Fund, \$1,025,428 in the Debt Service Fund, and \$838,340 in the Capital Projects Fund.

*General Fund*

A comparative summary of the General Fund's financial position as of August 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 5,684,185</u>	<u>\$ 4,714,470</u>
Total liabilities	\$ 422,206	\$ 392,970
Total deferred inflows	5,752	9,229
Total fund balance	<u>5,256,227</u>	<u>4,312,271</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,684,185</u>	<u>\$ 4,714,470</u>

***Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018***

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

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 3,430,176	\$ 3,303,703
Total expenditures	<u>(2,486,220)</u>	<u>(2,321,131)</u>
Revenues over expenditures	943,956	982,572
Other changes in fund balance		457,289
Net change in fund balance	<u>\$ 943,956</u>	<u>\$ 1,439,861</u>

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

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While assessed values in the District increased from the prior year, property tax revenues decreased because the District decreased the maintenance component of the levy.
- Water, sewer and surface water revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.

*Debt Service Fund*

A comparative summary of the Debt Service Fund's financial position as of August 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 1,049,214</u>	<u>\$ 814,144</u>
Total liabilities	\$ 10,090	\$ 1,137
Total deferred inflows	13,696	19,158
Total fund balance	<u>1,025,428</u>	<u>793,849</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,049,214</u>	<u>\$ 814,144</u>

***Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018***

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

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 2,547,340	\$ 2,405,566
Total expenditures	<u>(2,315,761)</u>	<u>(2,328,752)</u>
Revenues over expenditures	<u>\$ 231,579</u>	<u>\$ 76,814</u>

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

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund's financial position as of August 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 840,056</u>	<u>\$ 880,984</u>
Total liabilities	\$ 1,716	\$ 3,250
Total fund balance	<u>838,340</u>	<u>877,734</u>
Total liabilities and fund balance	<u>\$ 840,056</u>	<u>\$ 880,984</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 10,599	\$ 5,539
Total expenditures	<u>(49,993)</u>	<u>(242,493)</u>
Revenues under expenditures	(39,394)	(236,954)
Other changes in fund balance		<u>(457,289)</u>
Net change in fund balance	<u>\$ (39,394)</u>	<u>\$ (694,243)</u>

The District did not have any significant capital asset activity in the current fiscal year. In the prior year, the TCEQ approved the release of escrowed funds in the amount of \$632,500 from the Series 2012A Bonds and the use of surplus funds of \$118,092 for the rehabilitation or maintenance of District facilities. Additionally, the District transferred \$457,289 to the General Fund to reimburse the General Fund for emergency repairs and improvements to existing facilities.

**Harris County Municipal Utility District No. 374  
Management's Discussion and Analysis  
August 31, 2018**

**General Fund Budgetary Highlights**

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$453,002 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

**Capital Assets**

Capital assets held by the District at August 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 5,788,651</u>	<u>\$ 5,477,544</u>
Capital assets being depreciated/amortized		
Infrastructure	12,396,997	12,396,997
Other facilities	1,270,427	1,270,427
Interest in joint facilities	<u>6,624,980</u>	<u>6,624,980</u>
	<u>20,292,404</u>	<u>20,292,404</u>
Less accumulated depreciation/amortization		
Infrastructure	(2,963,099)	(2,684,599)
Other facilities	(449,388)	(384,713)
Interest in joint facilities	<u>(1,516,738)</u>	<u>(1,368,108)</u>
	<u>(4,929,225)</u>	<u>(4,437,420)</u>
Depreciable capital assets, net	<u>15,363,179</u>	<u>15,854,984</u>
Capital assets, net	<u><u>\$ 21,151,830</u></u>	<u><u>\$ 21,332,528</u></u>

The District's capital asset addition during the current year was for the purchase of 3.13 acres of park land.

**Long-Term Debt and Related Liabilities**

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from future bond issues or other lawfully available funds. As of August 31, 2018, the District owes \$1,380,046 to its developer for completed projects. This amount is unchanged from the prior year. Subsequent to fiscal year end, the District reimbursed the developer for the remaining amount with proceeds from the sale of its Series 2018 Unlimited Tax Park Bonds. See Note 14 for additional information.

**Harris County Municipal Utility District No. 374**  
**Management's Discussion and Analysis**  
**August 31, 2018**

At August 31, 2018 and 2017, the District had total bonded debt outstanding as shown below:

Series	2018	2017
2012 WSD & Refunding	\$ 12,970,000	\$ 13,265,000
2012A	4,165,000	4,170,000
2012B Park	1,720,000	1,720,000
2013 Refunding	5,850,000	6,180,000
2014 Refunding	1,980,000	2,215,000
2015 Refunding	2,790,000	2,810,000
2016 Refunding	4,790,000	4,930,000
2016A Refunding	1,340,000	1,350,000
	<u>\$ 35,605,000</u>	<u>\$ 36,640,000</u>

At August 31, 2018, the District had \$410,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$6,655,000 for parks and recreational facilities; and \$20,003,362 for refunding purposes. Subsequent to fiscal year end, the District issued its \$1,495,000 Series 2018 Unlimited Tax Bonds at a net effective rate of \$3.153697%. See Note 14 for additional information.

**Next Year's Budget**

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

	2018 Actual	2019 Budget
Total revenues	\$ 3,430,176	\$ 3,153,339
Total expenditures	(2,486,220)	(2,789,685)
Revenues over expenditures	943,956	363,654
Beginning fund balance	4,312,271	5,256,227
Ending fund balance	<u>\$ 5,256,227</u>	<u>\$ 5,619,881</u>

**Property Taxes**

The District's property tax base decreased approximately \$32,796,000 for the 2018 tax year from \$458,679,537 to \$425,883,586. This decrease was primarily due to decrease in property values for industrial properties. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.2545 per \$100 of assessed value and a debt service tax rate of \$0.5655 per \$100 of assessed value, for a total combined tax rate of \$0.82 per \$100. Tax rates for the 2017 tax year were \$0.3015 per \$100 for maintenance and operations and \$0.5485 per \$100 for debt service for a combined total of \$0.85 per \$100 of assessed value.

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## **Basic Financial Statements**

**Harris County Municipal Utility District No. 374**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**August 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 158,122	\$ 60,928	\$ 31,689	\$ 250,739	\$ -	\$ 250,739
Investments	5,064,089	990,667	689,919	6,744,675		6,744,675
Taxes receivable	5,752	13,696		19,448		19,448
Customer service receivables	250,106			250,106		250,106
Due from other governments	9,999			9,999		9,999
Internal balances	79,927	(16,077)	(63,850)			
Restricted cash			182,298	182,298		182,298
Prepaid items	17,397			17,397		17,397
Operating reserve	98,793			98,793		98,793
Prepaid bond insurance, net					173,257	173,257
Capital assets not being depreciated					5,788,651	5,788,651
Capital assets, net					15,363,179	15,363,179
<b>Total Assets</b>	<b>\$ 5,684,185</b>	<b>\$ 1,049,214</b>	<b>\$ 840,056</b>	<b>\$ 7,573,455</b>	<b>21,325,087</b>	<b>28,898,542</b>
<b>Deferred Outflows of Resources</b>						
Deferred difference on refunding					2,192,764	2,192,764
<b>Liabilities</b>						
Accounts payable	\$ 153,872	\$ 1,909	\$ 1,716	\$ 157,497		157,497
Other payables		8,181		8,181		8,181
Customer deposits	144,462			144,462		144,462
Due to other governments	123,872			123,872		123,872
Due to others					206,000	206,000
Due to developer					1,380,046	1,380,046
Long-term debt						
Due within one year					1,115,000	1,115,000
Due after one year					34,368,388	34,368,388
<b>Total Liabilities</b>	<b>422,206</b>	<b>10,090</b>	<b>1,716</b>	<b>434,012</b>	<b>37,069,434</b>	<b>37,503,446</b>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	5,752	13,696		19,448	(19,448)	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	116,190			116,190	(116,190)	
Restricted		1,025,428	838,340	1,863,768	(1,863,768)	
Unassigned	5,140,037			5,140,037	(5,140,037)	
<b>Total Fund Balances</b>	<b>5,256,227</b>	<b>1,025,428</b>	<b>838,340</b>	<b>7,119,995</b>	<b>(7,119,995)</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,684,185</b>	<b>\$ 1,049,214</b>	<b>\$ 840,056</b>	<b>\$ 7,573,455</b>		
<b>Net Position</b>						
Net investment in capital assets					(8,338,309)	(8,338,309)
Restricted for debt service					1,039,124	1,039,124
Unrestricted					887,045	887,045
<b>Total Net Position</b>					<b>\$ (6,412,140)</b>	<b>\$ (6,412,140)</b>

See notes to basic financial statements.

**Harris County Municipal Utility District No. 374**  
**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended August 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Water service	\$ 428,571	\$ -	\$ -	\$ 428,571	\$ -	\$ 428,571
Sewer service	402,163			402,163		402,163
Property taxes	1,374,439	2,502,403		3,876,842	(7,930)	3,868,912
Penalties and interest	15,131	16,500		31,631	(1,010)	30,621
City of Houston sales tax rebates	37,510			37,510		37,510
Tap connection and inspection	10,310			10,310		10,310
Surface water fees	823,446			823,446		823,446
Chloramine conversion refund	244,443			244,443		244,443
Miscellaneous	22,486			22,486		22,486
Investment earnings	71,677	28,437	10,599	110,713		110,713
<b>Total Revenues</b>	<b>3,430,176</b>	<b>2,547,340</b>	<b>10,599</b>	<b>5,988,115</b>	<b>(8,940)</b>	<b>5,979,175</b>
<b>Expenditures/Expenses</b>						
Current service operations						
Purchased services	822,605			822,605		822,605
Professional fees	184,660		49,993	234,653		234,653
Contracted services	305,518	52,039		357,557		357,557
Repairs and maintenance	807,700			807,700		807,700
Utilities	151,841			151,841		151,841
Administrative	93,057	2,870		95,927		95,927
Other	15,732			15,732		15,732
Capital outlay	105,107			105,107	(105,107)	
Debt service						
Principal		1,035,000		1,035,000	(1,035,000)	
Interest and fees		1,225,852		1,225,852	189,530	1,415,382
Depreciation and amortization					491,805	491,805
<b>Total Expenditures/Expenses</b>	<b>2,486,220</b>	<b>2,315,761</b>	<b>49,993</b>	<b>4,851,974</b>	<b>(458,772)</b>	<b>4,393,202</b>
<b>Revenues Over (Under)</b>						
<b>Expenditures</b>	943,956	231,579	(39,394)	1,136,141	(1,136,141)	
<b>Change in Net Position</b>					1,585,973	1,585,973
Fund Balance/Net Position						
Beginning of the year	4,312,271	793,849	877,734	5,983,854	(13,981,967)	(7,998,113)
<b>End of the year</b>	<b>\$ 5,256,227</b>	<b>\$ 1,025,428</b>	<b>\$ 838,340</b>	<b>\$ 7,119,995</b>	<b>\$ (13,532,135)</b>	<b>\$ (6,412,140)</b>

See notes to basic financial statements.

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Harris County Municipal Utility District No. 374 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

**Creation**

The District was organized, created and established pursuant to an order of the Texas Natural Conservation Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated September 19, 2001, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on September 19, 2001 and the first bonds were sold on October 5, 2005.

The District’s primary activities include construction, maintenance and operation of water, sewer, drainage, and park and recreational facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

**Reporting Entity**

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

**Government-Wide and Fund Financial Statements**

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

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

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Use of Restricted Resources**

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Prepaid Items**

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

**Prepaid Bond Insurance**

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

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At August 31, 2018, an allowance of \$994 was provided for possible uncollectible property taxes. An allowance for water/sewer accounts was not considered necessary.

**Interfund Activity**

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

**Capital Assets**

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

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

Depreciable capital assets, which primarily consist of infrastructure and the District’s investment in joint facilities, are depreciated/amortized using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Other facilities	10-50 years
Interest in joint facilities	45 years

The District’s detention facilities and drainage channels are considered improvements to land and are non-depreciable.

**Deferred Inflows and Outflows of Financial Resources**

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

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

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

**Net Position – Governmental Activities**

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

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

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

Unrestricted – resources not included in the other components.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items and operating reserves paid to Harris County Municipal Utility District No. 371 and Harris County Municipal Utility District No. 433 for joint facilities (see Note 11).

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

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

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

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

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

**Use of Estimates**

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

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 2 – Adjustment from Governmental to Government-wide Basis**

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

Total fund balance, governmental funds		\$ 7,119,995
<p>Prepaid bond insurance is recorded as an expenditure in the funds, but is recorded as a prepaid asset and amortized in the government wide statements.</p>		
Historical cost	\$ 233,899	
Less accumulated amortization	<u>(60,642)</u>	
Change due to bond issuance costs		173,257
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	26,081,055	
Less accumulated depreciation/amortization	<u>(4,929,225)</u>	
Change due to capital assets		21,151,830
<p>The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.</p>		
		2,192,764
<p>Long-term liabilities for the purchase of land are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.</p>		
		(206,000)
<p>Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(1,380,046)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of bonds payable, net.</p>		
		(35,483,388)
<p>Property taxes and related penalties and interest receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
Property taxes receivable	15,380	
Penalty and interest receivable	<u>4,068</u>	
Change due to property taxes		19,448
Total net position - governmental activities		<u><u>\$ (6,412,140)</u></u>

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 2 – Adjustment from Governmental to Government-wide Basis**

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

Net change in fund balances - total governmental funds		\$ 1,136,141
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.		(8,940)
Governmental funds report capital outlays as expenditures in the funds; however, in the <i>Statement of Activities</i> , the cost of capital assets is charged to expense over the estimated useful life of the asset.		
Capital outlays	\$ 105,107	
Depreciation/amortization expense	<u>(491,805)</u>	(386,698)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.		
Principal payments	1,035,000	
Interest expense accrual	<u>(189,530)</u>	845,470
Change in net position of governmental activities		<u><u>\$ 1,585,973</u></u>

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

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

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 3 – Deposits and Investments (continued)**

**Restricted Cash**

At August 31, 2018, the District held in escrow \$181,500 from the Series 2012A Bonds, as required by the Texas Commission on Environmental Quality (TCEQ), for use on certain capital projects in the District.

**Investments**

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

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

As of August 31, 2018, the District's investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexPool	General	\$ 5,064,089	AAAm	28 days
	Debt Service	990,667		
	Capital Projects	689,919		
		<u>\$ 6,744,675</u>		

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 3 – Deposits and Investments (continued)**

**TexPool**

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

**Investment Credit and Interest Rate Risk**

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

**Note 4 – Interfund Balances and Transactions**

Amounts due to/from other funds at August 31, 2018, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 16,077	Maintenance tax collections not remitted as of year end
General Fund	Capital Projects Fund	63,850	Bond application fees paid by the General Fund

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

**Harris County Municipal Utility District No. 374**  
**Notes to Basic Financial Statements**  
**August 31, 2018**

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended August 31, 2018, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 5,477,544	\$ 311,107	\$ 5,788,651
Capital assets being depreciated/amortized			
Infrastructure	12,396,997		12,396,997
Other facilities	1,270,427		1,270,427
Interest in joint facilities	6,624,980		6,624,980
	<u>20,292,404</u>		<u>20,292,404</u>
Less accumulated depreciation/amortization			
Infrastructure	(2,684,599)	(278,500)	(2,963,099)
Other facilities	(384,713)	(64,675)	(449,388)
Interest in joint facilities	(1,368,108)	(148,630)	(1,516,738)
	<u>(4,437,420)</u>	<u>(491,805)</u>	<u>(4,929,225)</u>
Subtotal depreciable capital assets, net	<u>15,854,984</u>	<u>(491,805)</u>	<u>15,363,179</u>
Capital assets, net	<u>\$ 21,332,528</u>	<u>\$ (180,698)</u>	<u>\$ 21,151,830</u>

Depreciation/amortization expense for the current year was \$491,805.

**Note 6 – Due to Others**

During the fiscal year, the District entered into a purchase and sale agreement with Cypress Creek Lakes Property Owners Association, Inc. for the purchase of a 3.313-acre park property. The District agreed to purchase the land for \$309,000, made in three equal installments. During the current year, the District paid the first installment of \$103,000, plus related title costs. The following schedule outlines future payments for the land purchase:

	Amount
January 31, 2019	\$ 103,000
January 31, 2020	103,000
	<u>\$ 206,000</u>

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 7 – Due to Developer**

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, and park and recreational facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete.

The amount due to developer for park and recreational facilities at August 31, 2018 is \$1,380,046. There was no change in this liability from the prior year. Subsequent to year end, the District reimbursed the developer for the remaining amount. See Note 14 for additional information.

**Note 8 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 35,605,000
Unamortized discounts	(399,913)
Unamortized premium	278,301
	<u>\$ 35,483,388</u>
Due within one year	<u>\$ 1,115,000</u>

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 8 – Long-Term Debt (continued)**

The District’s bonds payable at August 31, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2012 WSD & Refunding	\$ 12,970,000	\$ 14,885,000	2% to 4.15%	September 1, 2012 - 2038	March 1, September 1	September 1, 2018
2012A	4,165,000	5,370,000	3.5% to 5%	September 1, 2013 - 2039	March 1, September 1	September 1, 2019
2012B Park	1,720,000	2,845,000	3.4% to 5%	September 1, 2035 - 2039	March 1, September 1	September 1, 2019
2013 Refunding	5,850,000	6,945,000	2% to 4%	September 1, 2013 - 2034	March 1, September 1	September 1, 2019
2014 Refunding	1,980,000	2,905,000	2% to 3%	September 1, 2014 - 2024	March 1, September 1	September 1, 2020
2015 Refunding	2,790,000	2,980,000	2% to 3.375%	September 1, 2015 - 2036	March 1, September 1	September 1, 2021
2016 Refunding	4,790,000	5,075,000	2% to 3.5%	September 1, 2016 - 2037	March 1, September 1	September 1, 2023
2016A Refunding	1,340,000	1,390,000	2% to 3%	September 1, 2016 - 2037	March 1, September 1	September 1, 2023
	<u>\$ 35,605,000</u>					

The Series 2016 and Series 2016A Refunding bonds were issued to advance refund portions of the District’s Series 2012A and Series 2012B bonds. Since these bonds were not yet subject to redemption, the District defeased them by placing proceeds of the bonds in an escrow account with an escrow agent and irrevocably pledging the escrow account to the payment of future debt service payments. Accordingly, the defeased bonds are not included in the District's financial statements. The outstanding principal of the defeased bonds is \$2,300,000 at August 31, 2018.

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

At August 31, 2018, the District had authorized but unissued bonds in the amount of \$410,000 for water, sewer and drainage facilities; \$6,655,000 for park and recreational facilities; and \$20,003,362 for refunding purposes.

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 8 – Long-Term Debt (continued)**

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

Bonds payable, beginning of year	\$ 36,640,000
Bonds retired	<u>(1,035,000)</u>
Bonds payable, end of year	<u><u>\$ 35,605,000</u></u>

The debt service payment due September 1 was made during the current fiscal year. The following schedule was prepared presuming this practice will continue. As of August 31, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 1,115,000	\$ 1,195,625	\$ 2,310,625
2020	1,130,000	1,165,625	2,295,625
2021	1,215,000	1,133,862	2,348,862
2022	1,250,000	1,100,662	2,350,662
2023	1,300,000	1,065,425	2,365,425
2024	1,390,000	1,026,140	2,416,140
2025	1,470,000	983,465	2,453,465
2026	1,490,000	938,365	2,428,365
2027	1,575,000	890,352	2,465,352
2028	1,615,000	836,052	2,451,052
2029	1,730,000	780,252	2,510,252
2030	1,805,000	718,039	2,523,039
2031	1,915,000	650,983	2,565,983
2032	2,025,000	584,132	2,609,132
2033	1,940,000	512,944	2,452,944
2034	1,760,000	442,201	2,202,201
2035	2,140,000	377,676	2,517,676
2036	2,220,000	300,564	2,520,564
2037	2,050,000	231,130	2,281,130
2038	2,270,000	162,433	2,432,433
2039	2,200,000	79,750	2,279,750
	<u><u>\$ 35,605,000</u></u>	<u><u>\$ 15,175,677</u></u>	<u><u>\$ 50,780,677</u></u>

**Note 9 – Property Taxes**

On May 15, 2004, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

*Harris County Municipal Utility District No. 374*  
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*August 31, 2018*

**Note 9 – Property Taxes (continued)**

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$0.85 per \$100 of assessed value, of which \$0.3015 was allocated to maintenance and operations and \$0.5485 was allocated to debt service. The resulting tax levy was \$3,898,776 on the adjusted taxable value of \$458,679,537.

Net property taxes receivable, at August 31, 2018, consisted of the following:

Current year taxes receivable	\$	7,431
Prior years taxes receivable		8,943
Less allowance for uncollectible accounts		(994)
		<u>15,380</u>
Penalty and interest receivable		4,068
Net property taxes receivable	\$	<u><u>19,448</u></u>

**Note 10 – Regional Water Authority**

The District is within the boundaries of the West Harris County Regional Water Authority (the “Authority”), which was created by the Texas Legislature. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Coastal Subsidence District, which regulates groundwater withdrawal.

As of August 31, 2018, the Authority’s rates are \$2.70 per 1,000 gallons of water pumped from the District’s wells and \$3.10 for surface water supplied to the District. These rates are subject to future increases. The District passes these costs on to its customers at 110%. During the current year, the District recognized \$823,446 in revenues related to surface water conversion.

**Note 11 – Water Supply Agreements**

On January 8, 2004, the District, Harris County Municipal Utility District No. 371 (“HC 371”), and the District’s developer executed a contractual agreement (the “371 Agreement”) for the construction and operation of joint water supply facilities. Pursuant to the 371 Agreement, the District owns 40% of capacity in the facilities, HC 371 owns 55% and the developer owns 5%. Each party is billed monthly for maintenance and operating costs based on the respective usage in accordance with budgeted unit cost. During the year ended August 31, 2018, the District paid \$124,223 to HC 371. The District has also paid \$63,793 to HC 371 for an operating reserve deposit.

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**Note 11 – Water Supply Agreements (continued)**

On January 11, 2007, the District and Harris County Municipal Utility District No. 433 (“HC 433”) entered into a contractual agreement for the construction and operation of a water plant and well (the “433 Agreement”). The cost to design and construct these facilities was allocated between the participating districts based on each district’s pro rata share of equivalent single family connections. On July 1, 2016, the agreement was amended to add water plant no. 2 to the jointly owned and operated system serving both Districts. HC 433 constructed water plant no. 2 at its sole cost.

The District has agreed that HC 433 shall hold legal title to both water plants and water plant site, with the District having an undivided, equitable interest in the water plant and water plant site. HC 433 is responsible for the operation and maintenance of the water plant.

Each party is billed monthly for maintenance and operating costs based on the respective usage in accordance with a budgeted unit cost. For the year ended August 31, 2018, the District paid \$698,382 to HC 433 for water plant operating costs. The District has also paid an operating reserve deposit to HC 433 in the amount of \$35,000.

**Note 12 – Strategic Partnership Agreement**

On October 11, 2012, the District entered into a thirty-year Strategic Partnership Agreement with the City of Houston (the “City”). The City annexed a portion of the District for limited purposes. At the end of the thirty-year term of this agreement, the parties may renegotiate the agreement, agree to a full purpose annexation of the District, or allow the agreement to expire.

During the period of limited purpose annexation, the City shall impose a sales and use tax on retail sales within the annexed area at a rate of one percent. The City will rebate to the District fifty percent of the sales and use tax that the City collects within the boundaries of the District. As consideration for receipt of the funds from the City, the District shall take one or a combination of the following actions: 1) accelerate the development of the water, wastewater and drainage facilities; 2) accelerate reimbursements to developers; 3) lower the overall property tax rate; or 4) perform other District functions that might otherwise be hindered by financial limitations, all of which would be done in order to encourage development of the District. During the current year, the District recognized \$37,510 in sales tax revenues from the City.

**Note 13 – Risk Management**

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

*Harris County Municipal Utility District No. 374*  
*Notes to Basic Financial Statements*  
*August 31, 2018*

**Note 14 – Subsequent Event**

On September 13, 2018, the District issued its \$1,495,000 Series 2018 Unlimited Tax Park Bonds at a net effective rate of 3.153697%. Proceeds from the bonds were used to reimburse the District's developer for park and landscaping improvements in the District.

## **Required Supplementary Information**

**Harris County Municipal Utility District No. 374**  
**Required Supplementary Information - Budgetary Comparison Schedule - General Fund**  
**For the Year Ended August 31, 2018**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Water service	\$ 457,560	\$ 457,560	\$ 428,571	\$ (28,989)
Sewer service	422,340	422,340	402,163	(20,177)
Property taxes	1,619,774	1,308,601	1,374,439	65,838
Penalties and interest	20,400	20,400	15,131	(5,269)
City of Houston sales tax rebates	37,200	37,200	37,510	310
Tap connection and inspection	8,400	8,400	10,310	1,910
Surface water fees	696,000	696,000	823,446	127,446
Miscellaneous	13,560	13,560	22,486	8,926
Investment earnings	22,200	22,200	71,677	49,477
<b>Total Revenues</b>	<b>3,297,434</b>	<b>2,986,261</b>	<b>3,430,176</b>	<b>443,915</b>
<b>Expenditures</b>				
Current service operations				
Purchased services	808,288	839,474	822,605	16,869
Professional fees	175,000	175,000	184,660	(9,660)
Contracted services	284,448	293,142	305,518	(12,376)
Repairs and maintenance	739,700	797,491	807,700	(10,209)
Utilities	181,375	181,375	151,841	29,534
Administrative	92,019	94,500	93,057	1,443
Other	14,060	14,325	15,732	(1,407)
Capital outlay	100,000	100,000	105,107	(5,107)
<b>Total Expenditures</b>	<b>2,394,890</b>	<b>2,495,307</b>	<b>2,486,220</b>	<b>9,087</b>
<b>Revenues Over Expenditures</b>	<b>902,544</b>	<b>490,954</b>	<b>943,956</b>	<b>453,002</b>
<b>Fund Balance</b>				
Beginning of the year	4,312,271	4,312,271	4,312,271	
<b>End of the year</b>	<b>\$ 5,214,815</b>	<b>\$ 4,803,225</b>	<b>\$ 5,256,227</b>	<b>\$ 453,002</b>

*Harris County Municipal Utility District No. 374*  
*Notes to Required Supplementary Information*  
*August 31, 2018*

**Budgets and Budgetary Accounting**

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

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## **Texas Supplementary Information**

**Harris County Municipal Utility District No. 374**  
**TSI-1. Services and Rates**  
**August 31, 2018**

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

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

2. Retail Service Providers

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

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 10.00	5,000	N	\$ 1.50	5,001 to 10,000
				\$ 1.75	10,001 to 20,000
				\$ 2.25	20,001 to 50,000
				\$ 3.00	50,001 to 75,000
				\$ 3.60	75,001 to no limit
Wastewater:	\$ 10.00	5,000	N	\$ 2.00	5,001 to no limit
Surface water:	\$ 3.41	1,000	N	\$ 3.41	1,000 to no limit

The surface water fee charged to customers is 110% of the surface water rate billed to the District.

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 51.60 Wastewater \$ 20.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	529	529	x 1.0	529
1"	458	456	x 2.5	1,140
1.5"	4	4	x 5.0	20
2"	16	16	x 8.0	128
3"	2	1	x 15.0	15
4"	1	1	x 25.0	25
6"	3	3	x 50.0	150
8"	6	6	x 80.0	480
Total Water	1,019	1,016		2,487
Total Wastewater	994	992	x 1.0	992

See accompanying auditor's report.

**Harris County Municipal Utility District No. 374**  
**TSI-1. Services and Rates**  
**August 31, 2018**

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

*Gallons purchased:	<u>221,631,700</u>	Water Accountability Ratio:
		(Gallons billed / Gallons purchased)
**Gallons purchased:	<u>30,524,000</u>	
Gallons billed to customers:	<u>219,449,000</u>	<u>87%</u>

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

Does the District have Debt Service standby fees? Yes  No

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

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

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

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

Is the District located entirely within one county? Yes  No

County(ies) in which the District is located: Harris County

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

City(ies) in which the District is located: \_\_\_\_\_

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

Entirely  Partly  Not at all

ETJs in which the District is located: City of Houston

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

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

\*Purchased from Harris County Municipal Utility District No. 433

\*\*Purchased from Harris County Municipal Utility District No. 371

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
TSI-2 General Fund Expenditures  
For the Year Ended August 31, 2018*

Purchased services		<u>\$ 822,605</u>
Professional fees		
Legal		105,630
Financial advisor fees		1,500
Audit		11,500
Engineering		<u>66,030</u>
		<u>184,660</u>
Contracted services		
Bookkeeping		21,805
Operator		78,126
Security service		103,071
Tap connection and inspection		9,466
Sludge removal		<u>93,050</u>
		<u>305,518</u>
Repairs and maintenance		<u>807,700</u>
Utilities		<u>151,841</u>
Administrative		
Directors fees		12,150
Printing and office supplies		8,283
Insurance		22,373
Other		<u>50,251</u>
		<u>93,057</u>
Other		<u>15,732</u>
Capital outlay		<u>105,107</u>
Total expenditures		<u><u>\$ 2,486,220</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	1,682,294 kWh	\$ 140,117
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374*  
*TSI-3. Investments*  
*August 31, 2018*

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General				
TexPool	7889500001	Variable	N/A	\$ 5,064,089
Debt Service				
TexPool	7889500003	Variable	N/A	990,667
Capital Projects				
TexPool	7889500002	Variable	N/A	<u>689,919</u>
Total - All Funds				<u><u>\$ 6,744,675</u></u>

See accompanying auditors' report.

**Harris County Municipal Utility District No. 374**  
**TSI-4. Taxes Levied and Receivable**  
**August 31, 2018**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 9,229	\$ 14,080	\$ 23,309	
Adjustments	(146)	146		
Adjusted Receivable	9,083	14,226	23,309	
2017 Original Tax Levy	1,318,289	2,398,280	3,716,569	
Adjustments	64,630	117,577	182,207	
Adjusted Tax Levy	1,382,919	2,515,857	3,898,776	
Total to be accounted for	1,392,002	2,530,083	3,922,085	
Tax collections				
Current year	1,380,283	2,511,062	3,891,345	
Prior years	5,967	9,393	15,360	
Total Collections	1,386,250	2,520,455	3,906,705	
Taxes Receivable, End of Year	\$ 5,752	\$ 9,628	\$ 15,380	
Taxes Receivable, By Years				
2017	\$ 2,636	\$ 4,795	\$ 7,431	
2016	2,528	3,826	6,354	
2015	588	1,007	1,595	
Taxes Receivable, End of Year	\$ 5,752	\$ 9,628	\$ 15,380	
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 90,766,588	\$ 87,666,588	\$ 87,762,337	\$ 85,185,609
Improvements	445,750,963	441,563,671	411,855,113	386,852,315
Personal Property	22,833,685	5,198,926	5,770,795	4,920,824
Exemptions	(100,671,699)	(100,605,643)	(102,713,922)	(100,075,453)
Total Property Valuations	\$ 458,679,537	\$ 433,823,542	\$ 402,674,323	\$ 376,883,295
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.3015	\$ 0.3660	\$ 0.3395	\$ 0.2865
Debt service tax rates	0.5485	0.5540	0.5805	0.6435
Total Tax Rates per \$100 Valuation	\$ 0.8500	\$ 0.9200	\$ 0.9200	\$ 0.9300
Adjusted Tax Levy:	\$ 3,898,776	\$ 3,991,177	\$ 3,704,604	\$ 3,505,015
Percentage of Taxes Collected to Taxes Levied **	99.81%	99.84%	99.96%	99.99%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 15, 2004

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

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2012 Water, Sewer, Drainage, and Refunding--by Years*  
*August 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 300,000	\$ 461,863	\$ 761,863
2020	315,000	452,113	767,113
2021	325,000	441,875	766,875
2022	335,000	433,750	768,750
2023	340,000	424,538	764,538
2024	580,000	414,338	994,338
2025	890,000	396,938	1,286,938
2026	915,000	370,238	1,285,238
2027	960,000	340,500	1,300,500
2028	990,000	306,900	1,296,900
2029	1,045,000	272,250	1,317,250
2030	825,000	233,063	1,058,063
2031	875,000	202,125	1,077,125
2032	975,000	169,313	1,144,313
2033	860,000	132,750	992,750
2034	960,000	98,350	1,058,350
2035	980,000	59,950	1,039,950
2036	160,000	20,750	180,750
2037	165,000	14,110	179,110
2038	175,000	7,263	182,263
	<u>\$ 12,970,000</u>	<u>\$ 5,252,977</u>	<u>\$ 18,222,977</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2012A--by Years  
 August 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 5,000	\$ 149,350	\$ 154,350
2020		149,100	149,100
2021		149,100	149,100
2022		149,100	149,100
2023		149,100	149,100
2024		149,100	149,100
2025		149,100	149,100
2026		149,100	149,100
2027		149,100	149,100
2028		149,100	149,100
2029		149,100	149,100
2030		149,100	149,100
2031		149,100	149,100
2032		149,100	149,100
2033		149,100	149,100
2034		149,100	149,100
2035		149,100	149,100
2036		149,100	149,100
2037	1,060,000	149,100	1,209,100
2038	1,500,000	112,000	1,612,000
2039	1,600,000	58,000	1,658,000
	<u>\$ 4,165,000</u>	<u>\$ 3,003,150</u>	<u>\$ 7,168,150</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2012B Park--by Years  
 August 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ -	\$ 61,020	\$ 61,020
2020		61,020	61,020
2021		61,020	61,020
2022		61,020	61,020
2023		61,020	61,020
2024		61,020	61,020
2025		61,020	61,020
2026		61,020	61,020
2027		61,020	61,020
2028		61,020	61,020
2029		61,020	61,020
2030		61,020	61,020
2031		61,020	61,020
2032		61,020	61,020
2033		61,020	61,020
2034		61,020	61,020
2035	525,000	61,020	586,020
2036		43,170	43,170
2037		43,170	43,170
2038	595,000	43,170	638,170
2039	600,000	21,750	621,750
	<u>\$ 1,720,000</u>	<u>\$ 1,188,600</u>	<u>\$ 2,908,600</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2013 Refunding--by Years  
 August 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 360,000	\$ 203,894	\$ 563,894
2020	360,000	193,094	553,094
2021	360,000	182,294	542,294
2022	390,000	169,694	559,694
2023	395,000	156,044	551,044
2024	205,000	142,219	347,219
2025	210,000	135,044	345,044
2026	215,000	127,694	342,694
2027	230,000	120,169	350,169
2028	245,000	110,969	355,969
2029	255,000	101,169	356,169
2030	555,000	90,968	645,968
2031	585,000	68,769	653,769
2032	590,000	49,755	639,755
2033	595,000	30,580	625,580
2034	300,000	10,500	310,500
	<u>\$ 5,850,000</u>	<u>\$ 1,892,856</u>	<u>\$ 7,742,856</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2014 Refunding--by Years  
 August 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 280,000	\$ 51,875	\$ 331,875
2020	285,000	46,275	331,275
2021	335,000	39,150	374,150
2022	325,000	30,775	355,775
2023	370,000	22,650	392,650
2024	385,000	11,550	396,550
	<u>\$ 1,980,000</u>	<u>\$ 202,275</u>	<u>\$ 2,182,275</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2015 Refunding--by Years  
 August 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 20,000	\$ 88,088	\$ 108,088
2020	20,000	87,488	107,488
2021	20,000	86,888	106,888
2022	25,000	86,288	111,288
2023	25,000	85,538	110,538
2024	25,000	84,788	109,788
2025	175,000	84,038	259,038
2026	170,000	78,788	248,788
2027	195,000	73,688	268,688
2028	195,000	67,838	262,838
2029	215,000	61,988	276,988
2030	215,000	55,538	270,538
2031	220,000	48,819	268,819
2032	230,000	41,944	271,944
2033	255,000	34,469	289,469
2034	250,000	26,181	276,181
2035	270,000	18,056	288,056
2036	265,000	8,944	273,944
	<u>\$ 2,790,000</u>	<u>\$ 1,119,369</u>	<u>\$ 3,909,369</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2016 Refunding--by Years  
 August 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 140,000	\$ 140,225	\$ 280,225
2020	140,000	137,425	277,425
2021	165,000	134,625	299,625
2022	165,000	131,325	296,325
2023	160,000	128,025	288,025
2024	185,000	124,825	309,825
2025	185,000	119,275	304,275
2026	180,000	113,725	293,725
2027	180,000	108,325	288,325
2028	175,000	102,925	277,925
2029	200,000	97,675	297,675
2030	195,000	91,675	286,675
2031	220,000	84,850	304,850
2032	215,000	77,150	292,150
2033	215,000	69,625	284,625
2034	235,000	62,100	297,100
2035	350,000	55,050	405,050
2036	1,235,000	44,550	1,279,550
2037	250,000	7,500	257,500
	<u>\$ 4,790,000</u>	<u>\$ 1,830,875</u>	<u>\$ 6,620,875</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2016A Refunding--by Years  
 August 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 10,000	\$ 39,310	\$ 49,310
2020	10,000	39,110	49,110
2021	10,000	38,910	48,910
2022	10,000	38,710	48,710
2023	10,000	38,510	48,510
2024	10,000	38,300	48,300
2025	10,000	38,050	48,050
2026	10,000	37,800	47,800
2027	10,000	37,550	47,550
2028	10,000	37,300	47,300
2029	15,000	37,050	52,050
2030	15,000	36,675	51,675
2031	15,000	36,300	51,300
2032	15,000	35,850	50,850
2033	15,000	35,400	50,400
2034	15,000	34,950	49,950
2035	15,000	34,500	49,500
2036	560,000	34,050	594,050
2037	575,000	17,250	592,250
	<u>\$ 1,340,000</u>	<u>\$ 685,575</u>	<u>\$ 2,025,575</u>

See accompanying auditors' report.

*Harris County Municipal Utility District No. 374  
 TSI-5. Long-Term Debt Service Requirements  
 All Bonded Debt Series--by Years  
 August 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2019	\$ 1,115,000	\$ 1,195,625	\$ 2,310,625
2020	1,130,000	1,165,625	2,295,625
2021	1,215,000	1,133,862	2,348,862
2022	1,250,000	1,100,662	2,350,662
2023	1,300,000	1,065,425	2,365,425
2024	1,390,000	1,026,140	2,416,140
2025	1,470,000	983,465	2,453,465
2026	1,490,000	938,365	2,428,365
2027	1,575,000	890,352	2,465,352
2028	1,615,000	836,052	2,451,052
2029	1,730,000	780,252	2,510,252
2030	1,805,000	718,039	2,523,039
2031	1,915,000	650,983	2,565,983
2032	2,025,000	584,132	2,609,132
2033	1,940,000	512,944	2,452,944
2034	1,760,000	442,201	2,202,201
2035	2,140,000	377,676	2,517,676
2036	2,220,000	300,564	2,520,564
2037	2,050,000	231,130	2,281,130
2038	2,270,000	162,433	2,432,433
2039	2,200,000	79,750	2,279,750
	<u>\$ 35,605,000</u>	<u>\$ 15,175,677</u>	<u>\$ 50,780,677</u>

See accompanying auditors' report.

**Harris County Municipal Utility District No. 374**  
**TSI-6. Change in Long-Term Bonded Debt**  
**August 31, 2018**

	Bond Issue			
	Series 2012 WSD & Refunding	Series 2012A	Series 2012B Park	Series 2013 Refunding
Interest rate	2% to 4.15%	3.5% to 5%	3.4% to 5%	2% to 4%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/12-9/1/38	9/1/13-9/1/39	9/1/35-9/1/39	9/1/13-9/1/34
Beginning bonds outstanding	\$ 13,265,000	\$ 4,170,000	\$ 1,720,000	\$ 6,180,000
Bonds retired	(295,000)	(5,000)		(330,000)
Ending bonds outstanding	<u>\$ 12,970,000</u>	<u>\$ 4,165,000</u>	<u>\$ 1,720,000</u>	<u>\$ 5,850,000</u>
Interest paid during fiscal year	<u>\$ 471,450</u>	<u>\$ 149,600</u>	<u>\$ 61,020</u>	<u>\$ 212,144</u>
Paying agent's name and city				
Series 2012	Wells Fargo Bank, N.A., Dallas, Texas			
Series 2012A, 2012B, 2013 Ref, 2014 Ref, 2015 Ref, 2016 Ref, 2016A Ref	BOKF, N.A., dba Bank of Texas, Austin, Texas			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 37,200,000	\$ 9,500,000	\$ 24,200,000	
Amount Issued	(36,790,000)	(2,845,000)	(4,196,638)	
Remaining To Be Issued	<u>\$ 410,000</u>	<u>\$ 6,655,000</u>	<u>\$ 20,003,362</u>	

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

Debt Service Fund cash and investments balances as of August 31, 2018: \$ 1,051,595

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 2,418,127

See accompanying auditors' report.

Bond Issue

Series 2014 Refunding	Series 2015 Refunding	Series 2016 Refunding	Series 2016A Refunding	Totals
2% to 3% 3/1; 9/1 9/1/14-9/1/24	2% to 3.375% 3/1; 9/1 9/1/15-9/1/36	2% to 3.5% 3/1; 9/1 9/1/16-9/1/37	2% to 3% 3/1; 9/1 9/1/16-9/1/37	
\$ 2,215,000	\$ 2,810,000	\$ 4,930,000	\$ 1,350,000	\$ 36,640,000
(235,000)	(20,000)	(140,000)	(10,000)	(1,035,000)
<u>\$ 1,980,000</u>	<u>\$ 2,790,000</u>	<u>\$ 4,790,000</u>	<u>\$ 1,340,000</u>	<u>\$ 35,605,000</u>
<u>\$ 56,575</u>	<u>\$ 88,488</u>	<u>\$ 143,025</u>	<u>\$ 39,510</u>	<u>\$ 1,221,812</u>

**Harris County Municipal Utility District No. 374**  
**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund**  
**For the Last Five Fiscal Years**

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Water service	\$ 428,571	\$ 442,890	\$ 410,537	\$ 375,977	\$ 425,105
Sewer service	402,163	397,040	378,612	354,260	388,780
Property taxes	1,374,439	1,586,440	1,389,873	1,068,951	722,263
Penalties and interest	15,131	23,113	19,904	21,426	25,017
City of Houston sales tax rebates	37,510	36,970	33,175	24,420	27,364
Tap connection and inspection	10,310	9,200	42,080	151,761	5,210
Surface water fees	823,446	768,859	642,206	513,968	457,139
Intergovernmental revenue					56,341
Chloramine conversion refund	244,443				
Miscellaneous	22,486	13,557	17,114	15,277	11,980
Investment earnings	71,677	25,634	7,627	3,073	2,066
<b>Total Revenues</b>	<b>3,430,176</b>	<b>3,303,703</b>	<b>2,941,128</b>	<b>2,529,113</b>	<b>2,121,265</b>
Expenditures					
Current service operations					
Purchased services	822,605	789,708	619,868	562,433	581,293
Professional fees	184,660	164,500	148,319	158,717	150,577
Contracted services	305,518	273,707	275,736	294,268	260,165
Repairs and maintenance	807,700	785,872	958,156	763,041	665,558
Utilities	151,841	174,233	172,280	156,458	136,363
Regional water authority					1,311
Administrative	93,057	90,099	75,154	87,715	70,944
Other	15,732	15,587	19,678	16,803	14,385
Capital outlay	105,107	27,425	132,916	141,192	2,120
<b>Total Expenditures</b>	<b>2,486,220</b>	<b>2,321,131</b>	<b>2,402,107</b>	<b>2,180,627</b>	<b>1,882,716</b>
<b>Revenues Over Expenditures</b>	<b>\$ 943,956</b>	<b>\$ 982,572</b>	<b>\$ 539,021</b>	<b>\$ 348,486</b>	<b>\$ 238,549</b>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
12%	13%	14%	15%	20%
12%	12%	13%	14%	18%
41%	49%	47%	42%	34%
*	1%	1%	1%	1%
1%	1%	1%	1%	1%
*	*	1%	6%	*
24%	23%	22%	20%	22%
				3%
7%				
1%	*	1%	1%	1%
2%	1%	*	*	*
100%	100%	100%	100%	100%
24%	24%	21%	22%	27%
5%	5%	5%	6%	7%
9%	8%	9%	12%	12%
24%	24%	33%	30%	31%
4%	5%	6%	6%	6%
				*
3%	3%	3%	3%	3%
*	*	1%	1%	1%
3%	1%	5%	6%	*
72%	70%	83%	86%	87%
28%	30%	17%	14%	13%

*Harris County Municipal Utility District No. 374*

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund*

*For the Last Five Fiscal Years*

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 2,502,403	\$ 2,381,011	\$ 2,382,759	\$ 2,403,296	\$ 2,375,623
Penalties and interest	16,500	12,276	25,720	13,266	8,133
Accrued interest on bonds sold				5,615	4,496
Miscellaneous			50	25	
Investment earnings	28,437	12,279	5,204	2,328	2,030
<b>Total Revenues</b>	<b>2,547,340</b>	<b>2,405,566</b>	<b>2,413,733</b>	<b>2,424,530</b>	<b>2,390,282</b>
Expenditures					
Tax collection services	54,909	48,177	57,634	47,303	39,851
Debt service					
Principal	1,035,000	1,030,000	1,100,000	935,000	865,000
Interest and fees	1,225,852	1,250,575	1,250,080	1,411,622	1,486,664
Debt issuance costs			193,106	102,216	108,574
<b>Total Expenditures</b>	<b>2,315,761</b>	<b>2,328,752</b>	<b>2,600,820</b>	<b>2,496,141</b>	<b>2,500,089</b>
Revenues Over (Under) Expenditures	<b>\$ 231,579</b>	<b>\$ 76,814</b>	<b>\$ (187,087)</b>	<b>\$ (71,611)</b>	<b>\$ (109,807)</b>
Total Active Retail Water Connections	1,016	1,016	1,015	1,009	1,003
Total Active Retail Wastewater Connections	992	992	992	987	984

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
98%	98%	99%	99%	100%
1%	1%	1%	1%	*
			*	*
		*	*	
1%	1%	*	*	*
100%	100%	100%	100%	100%
2%	2%	2%	2%	2%
41%	43%	46%	39%	36%
48%	52%	52%	58%	62%
		8%	4%	5%
91%	97%	108%	103%	105%
9%	3%	(8%)	(3%)	(5%)

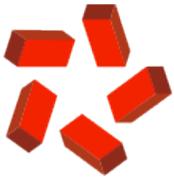
**Harris County Municipal Utility District No. 374**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended August 31, 2018**

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

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Joe Sykes	5/16 - 5/20	\$ 3,000	\$ 2,639	President
Thomas Mohr	5/16 - 5/20	2,550	1,155	Vice President
Brian Canepa	5/16 - 5/20	2,100	1,793	Secretary
Scott Spidle	6/18 - 5/22	300	46	Assistant Secretary
Jennifer Naedler	5/18 - 5/22	1,950	411	Assistant Vice President
Michael Owens	5/14 - 5/18	2,250	1,088	Former Director
<b>Consultants</b>				
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	08/03	<u>Amounts Paid</u> \$ 117,633		Attorney
Inframark, LLC	04/04	518,402		Operator
McLennan & Associates, L.P.	04/04	24,159		Bookkeeper
Tax Tech, Inc.	08/03	16,229		Tax Collector
Harris County Appraisal District	Legislation	29,418		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	04/04	4,419		Delinquent Tax Attorney
BGE, Inc.	08/12	107,832		Engineer
McGrath & Co., PLLC	Annual	11,500		Auditor
Public Finance Group, LLC	03/14			Financial Advisor

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

**APPENDIX B**  
**Specimen Municipal Bond Insurance Policy**



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

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

MEMBER: [NAME OF MEMBER]

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

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

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

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

Email:

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

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN